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Table of contents

Editorial After the lockdown, a tightrope walk toward recovery 7

1 General assessment of the macroeconomic situation 11

Introduction 12
Global activity has collapsed suddenly 14
The evolution of the COVID-19 pandemic and exit strategies is uncertain 20
Short-term outlook scenarios for an uncertain global economy 22
The large recession may leave multiple scars and there are risks it could last for longer 31
Policy requirements 39
References 55
Annex 1.A. Policy and other assumptions underlying the projections 58

2 Issues notes on macroeconomic and structural policy issues related to the COVID-19 outbreak 59

Issue Note 1: Evaluating the impact of COVID-19 containment measures on activity and spending 60
Issue Note 2: Corporate sector vulnerabilities during the COVID-19 outbreak: Assessment and policy responses 78
Annex 2.A. Sensitivity test and country-specific results 89
Issue Note 3: Assessment of government crisis programmes to support businesses 90
Issue Note 4: Distributional risks associated with non-standard work: Stylised facts and policy considerations 101
Issue Note 5: Flattening the unemployment curve? Policies to support workers' income and promote a speedy labour market recovery 114
Annex 2.B. Country-specific tables and figures 126

3 Developments in individual OECD and selected non-member economies 131

Argentina 132
Australia 136
Austria 140
Belgium 144
Brazil 148
Bulgaria 153
Canada 157
Chile 162
China 166
Colombia 171
Costa Rica 175
Czech Republic 179

Denmark 183
Estonia 187
Euro area 191
Finland 196
France 200
Germany 205
Greece 210
Hungary 215
Iceland 219
India 223
Indonesia 228
Ireland 233
Israel 237
Italy 241
Japan 246
Korea 251
Latvia 255
Lithuania 259
Luxembourg 263
Mexico 267
Netherlands 271
New Zealand 275
Norway 279
Poland 283
Portugal 287
Romania 291
Slovak Republic 295
Slovenia 299
South Africa 303
Spain 307
Sweden 311
Switzerland 315
Turkey 319
United Kingdom 324
United States 329

FIGURES

Figure 1.1. Global activity declined abruptly in the first quarter of 2020 15
Figure 1.2. Survey measures of business activity remain exceptionally weak 16
Figure 1.3. High-frequency data point to sharp contractions in activity during shutdowns 17
Figure 1.4. World trade is now collapsing 18
Figure 1.5. Financial market tensions have increased 19
Figure 1.6. A collapse in output followed by a slow recovery 24
Figure 1.7. An unprecedented output collapse is occurring in the first half of 2020 24
Figure 1.8. Output is projected to decline in all economies this year 26
Figure 1.9. Output is set to remain weak for an extended period 27
Figure 1.10. The crisis is resulting in sizeable job losses and high unemployment 28
Figure 1.11. World trade is projected to remain very weak, with challenges for tourism-dependent economies 29
Figure 1.12. Inflation is expected to remain low 30
Figure 1.13. The pandemic will leave long-lasting legacies 32
Figure 1.14. Vulnerabilities in emerging-market economies 36

Figure 1.15. Domestic currencies have weakened considerably against the US dollar 36
Figure 1.16. Vulnerability to trade shocks is high in some OECD countries 37
Figure 1.17. Cross-border trade has helped to raise world trade intensity 39
Figure 1.18. The global monetary policy stance has been eased substantially 41
Figure 1.19. Fiscal positions are set to deteriorate drastically 46
Figure 1.20. Frequency of government measures in response to the pandemic crisis 48
Figure 1.21. Several central banks have become dominant holders of domestic government bonds 51
Figure 2.1. A benchmark estimate of the impact of shutdowns on activity in selected advanced economies 62
Figure 2.2. A benchmark estimate including spillovers of the overall impact of shutdowns on activity in selected advanced economies 64
Figure 2.3. The total impact of shutdowns varies across sectors in the benchmark estimates 64
Figure 2.4. Benchmark estimates of the potential impact of shutdowns on private consumption in selected advanced economies 65
Figure 2.5. Benchmark estimates of the potential impact of shutdowns on productive investment in selected advanced economies 67
Figure 2.6. Survey evidence on the share of businesses shut down due to containment measures 69
Figure 2.7. Business sentiment has declined substantially in most sectors 70
Figure 2.8. Monthly GDP growth by sector in March 71
Figure 2.9. Differences between national estimates of shutdowns and OECD illustrative estimates 75
Figure 2.10. Liquidity shortfalls without government interventions: Whole economy and severely hit sectors 82
Figure 2.11. Liquidity shortfalls without government intervention: solvency, collateral availability and indebtedness 84
Figure 2.12. The impact of policies on liquidity shortfalls 86
Figure 2.13. Liquidity shortfalls: The impact of policies 87
Figure 2.14. Unprecedented government programmes have been implemented to support business cash-flows 90
Figure 2.15. US business lending programmes do not extend to all firms in need of liquidity support 94
Figure 2.16. Euro area business lending programmes do not extend to all firms in need of liquidity support 95
Figure 2.17. The share of distressed firms could rise considerably 97
Figure 2.18. Preferred equity support can reduce government exposure to loss and reduce business leverage 100
Figure 2.19. Employment in activities most affected by containment measures across OECD countries 103
Figure 2.20. Non-standard workers in activities most affected by containment measures across European OECD countries 104
Figure 2.21. Composition of non-standard workers in activities most affected by containment measures across European OECD countries 105
Figure 2.22. Proportion of small entrepreneurs in activities most affected by containment measures across European OECD countries 106
Figure 2.23. Proportion of low-wage non-standard employees in activities most affected by containment measures across European OECD countries 107
Figure 2.24. Total employment and non-standard employment in activities most affected by containment measures across European OECD countries 108
Figure 2.25. OECD unemployment projections and deviations from the Okun benchmark 116
Figure 2.26. Deviations from Okun's law partly reflect labour market policies 118
Figure 2.27. Registered unemployment and applications for participation in job retention schemes 119

TABLES

Table 1.1. Global activity has collapsed and the recovery will be slow and possibly interrupted 13
Table 1.2. Key monetary policy measures in the main economic areas 42
Table 1.3. Key financial policy measures in the main economic areas 43
Table 2.1. Cross-country differences in sectoral shutdown estimates 74
Table 2.2. Government support programmes to businesses 91
Table 2.3. Stylised mapping of corporate credit ratings, defaults and pricing of risk 97
Table 2.4. Current policies and new measures to support non-standard and vulnerable workers during the COVID-19 crisis 109

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Conventional signs

$	US dollar	.	Decimal point
¥	Japanese yen	I, II	Calendar half-years
£	Pound sterling	Q1, Q4	Calendar quarters
€	Euro	Billion	Thousand million
mb/d	Million barrels per day	Trillion	Thousand billion
. .	Data not available	s.a.a.r.	Seasonally adjusted at annual rates
0	Nil or negligible	n.s.a.	Not seasonally adjusted
–	Irrelevant		

Editorial

After the lockdown, a tightrope walk toward recovery

The spread of Covid-19 has shaken people's lives around the globe in an extraordinary way, threatening health, disrupting economic activity, and hurting wellbeing and jobs. Since our last Economic Outlook update, in early March, multiple virus outbreaks evolved into a global pandemic, moving too fast across the globe for most healthcare systems to cope with effectively. To reduce the spread of the virus and buy time to strengthen healthcare systems, governments had to shut down large segments of economic activity. At the time of writing, the pandemic has started to recede in many countries, and activity has begun to pick up. The health, social and economic impact of the outbreak could have been considerably worse without the dedication of healthcare and other essential workers who continued to serve the public, putting their own health at risk in doing so.

Governments and central banks have put in place wide-ranging policies to protect people and businesses from the consequences of the sudden stop in activity. Economic activity has collapsed across the OECD during shutdowns, by as much as 20 to 30% in some countries, an extraordinary shock. Borders have been closed and trade has plummeted. Simultaneously, governments implemented quick, large and innovative support measures to cushion the blow, subsidising workers and firms. Social and financial safety nets were strengthened at record speed. As financial stress surged, central banks took forceful and timely action, deploying an array of conventional and unconventional policies above and beyond those used in the Global Financial Crisis, preventing the health and economic crisis from spilling over into a financial one.

As long as no vaccine or treatment is widely available, policymakers around the world will continue to walk on a tightrope. Physical distancing and testing, tracking, tracing and isolating (TTTI) will be the main instruments to fight the spread of the virus. TTTI is indispensable for economic and social activities to resume. But those sectors affected by border closures and those requiring close personal contact, such as tourism, travel, entertainment, restaurants and accommodation will not resume as before. TTTI may not even be enough to prevent a second outbreak of the virus.

Faced with this extraordinary uncertainty, this Economic Outlook presents two possible scenarios: one where the virus continues to recede and remains under control, and one where a second wave of rapid contagion erupts later in 2020. These scenarios are by no means exhaustive, but they help frame the field of possibilities and sharpen policies to walk such uncharted grounds. Both scenarios are sobering, as economic activity does not and cannot return to normal under these circumstances. By the end of 2021, the loss of income exceeds that of any previous recession over the last 100 years outside wartime, with dire and long-lasting consequences for people, firms and governments.

The pandemic has accelerated the shift from "great integration" to "great fragmentation". Additional trade and investment restrictions have sprung up. Many borders are closed across large regions and will likely remain so, at least in part, as long as sizeable virus outbreaks continue. Economies are diverging, depending on when and to what extent they were hit by the virus, the preparedness of their healthcare system, their sectoral specialisation and their fiscal capacity to address the shock. Emerging-market economies have also been shaken by the crisis. Commodity prices have plummeted. Large capital outflows, plummeting remittances, weaker healthcare systems and a large share of informal workers have threatened their health, economic and social resilience. Everywhere, the lockdown has also exacerbated inequality across workers, with those able to telework generally highly qualified, while the least qualified and youth are often on the front line, unable to work or laid off, with the effects further compounded by unequal access to social protection. Private debt levels are uncomfortably high in some countries, and business failure and bankruptcy risks loom large.

Extraordinary policies will be required to walk the tightrope towards recovery. Even if growth does surge in some sectors, overall activity will remain muted for a while. Governments can provide the safety nets that allow people and firms to adjust, but cannot uphold private sector activity, employment and wages for a prolonged period. Capital and workers from impaired sectors and businesses will have to move towards expanding ones. Such transitions are difficult, and rarely happen fast enough to prevent the number of failing firms from rising and a sustained period of unemployment. Governments will need to adapt support and accompany the transition, allowing fast restructuring processes for firms, with no stigma for entrepreneurs, providing income for workers in between jobs, training for those laid off and transitioning to new jobs, and social protection for the most vulnerable. We have previously called for a rise in public investment in digital and green technologies to promote long-term sustainable growth and lift demand in the short term. This is even more urgent today with economies having been hit so hard.

Today's recovery policies will shape economic and social prospects in the coming decade. Ultra-accommodative monetary policies and higher public debt are necessary and will be accepted as long as economic activity and inflation are depressed, and unemployment is high. However, debt-financed spending should be well targeted to support the most vulnerable and the investment necessary for a transition to a more robust economy. Public support needs to be transparent and fair. Corporate support from governments must come with transparent rules, with private bond and equity holders taking a loss when government steps in, so that their rewards for taking risks are not excessive. Improving employer-employee relationships should accompany ongoing public support for workers and firms, paving the way for stronger social cohesion and ultimately a stronger and more sustainable recovery.

The recovery will not gain steam without more confidence, which will not fully recover without global cooperation. Confidence needs to be boosted both at the national and international levels. Household saving rates have soared in most OECD countries, with high uncertainty and rising unemployment holding back consumption. Trade disruptions and the associated threats to supply chains also impede the necessary reduction in uncertainty for investment to resume. Global cooperation to tackle the virus with a treatment and vaccine and a broader resumption of multilateral dialogue will be key for reducing doubt and unlock economic momentum. The international community should ensure that when a vaccine or treatment is available it can be distributed rapidly worldwide. Otherwise the threat will stay. Likewise, resuming a constructive dialogue on trade would lift business confidence and the appetite for investment.

Governments must seize this opportunity to engineer a fairer and more sustainable economy, making competition and regulation smarter, modernising government taxes, spending, and social protection. Prosperity comes from dialogue and cooperation. This holds true at the national and global level.

10th June 2020

Laurence Boone

OECD Chief Economist

1 General assessment of the macroeconomic situation

Introduction

The COVID-19 pandemic is a global public health crisis without precedent in living memory, and continues to result in a widespread loss of life and severe human suffering. To contain the spread of the virus and save lives, most governments throughout the world imposed stringent containment measures. Activity in many sectors was shut down completely and travel and mobility curtailed. These necessary measures have succeeded in slowing the spread of infections and reducing the death toll, but have resulted in large short-term economic disruption and job losses, compounded by falling confidence and tighter financial conditions. The global economy is now experiencing the deepest recession since the Great Depression in the 1930s, with GDP declines of more than 20% in many countries during shutdowns and a surge in unemployment.

The economic outlook is exceptionally uncertain. With the easing of the health emergency, confinement measures are being scaled back gradually. The restarting of activities automatically adds to output, even though some containment measures, such as the closure of many international borders, will remain for some time. The recovery is likely to be hesitant, and could be interrupted by another coronavirus outbreak if targeted containment measures, notably test, track and trace (TTT) programmes, are not put in place or prove ineffective. Reflecting the unusual degree of uncertainty, this Economic Outlook presents two equally likely scenarios for each country and economy – one scenario in which a second outbreak occurs in all economies towards the end of this year (Table 1.1, Panel A) and an alternative scenario where the second outbreak is avoided (Table 1.1, Panel B). In the “double-hit” scenario, global GDP is projected to decline by 7.6% this year and remain well short of its pre-crisis level at the end of 2021; in the “single-hit” scenario, world GDP is projected to decline by 6% this year, but will have almost regained the pre-crisis level at the end of 2021. Even so, in many advanced economies, the equivalent of five years or more of per capita real income growth could be lost by 2021.

Governments and monetary authorities reacted remarkably quickly to the crisis, reducing the spread of the virus and preventing an even larger economic and financial collapse. Emergency measures expanded hospital and other healthcare capacities, helped to preserve the incomes of workers and companies despite the shutdown, and guaranteed private debt on a large scale in some countries. Monetary policy has been eased, with interest rates cut, enhanced asset purchase programmes and targeted interventions in financial market segments under extreme stress. Financial policy has also been relaxed to support credit provision by financial institutions. As a result, policymakers now face exceptional challenges: government budget deficits are elevated and public debt is set to rise to exceptionally high levels in many countries, interest rates have been reduced to zero or below, and central bank balance sheets have expanded dramatically.

Table 1.1. Global activity has collapsed and the recovery will be slow and possibly interrupted

OECD area, unless noted otherwise

	Average 2012-2019	2018	2019	2020	2021	2019 Q4	2020 Q4	2021 Q4
A. Double-hit scenario				Per cent				
Real GDP growth[1]								
World[2]	3.3	3.4	2.7	-7.6	2.8	2.6	-11.0	7.9
G20[2]	3.5	3.6	2.9	-7.3	3.1	2.8	-10.2	7.5
OECD[2]	2.1	2.3	1.7	-9.3	2.2	1.6	-13.1	8.4
United States	2.4	2.9	2.3	-8.5	1.9	2.3	-12.3	7.5
Euro area	1.6	1.9	1.3	-11.5	3.5	1.0	-15.1	10.1
Japan	1.0	0.3	0.7	-7.3	-0.5	-0.7	-8.4	2.1
Non-OECD[2]	4.3	4.4	3.5	-6.1	3.2	3.4	-9.2	7.5
China	7.0	6.7	6.1	-3.7	4.5	5.9	-4.7	5.0
India[3]	6.8	6.1	4.2	-7.3	8.1			
Brazil	0.0	1.3	1.1	-9.1	2.4			
Unemployment rate[4]	6.7	5.5	5.4	10.0	9.9	5.3	12.6	8.9
Inflation[1,5]	1.6	2.4	1.9	1.1	1.0	1.7	0.7	1.2
Fiscal balance[6]	-3.6	-2.9	-3.3	-12.7	-9.2			
World real trade growth[1]	3.3	3.9	1.1	-11.4	2.5	1.1	-15.4	9.2
B. Single-hit scenario				Per cent				
Real GDP growth[1]								
World[2]	3.3	3.4	2.7	-6.0	5.2	2.6	-4.6	4.0
G20[2]	3.5	3.6	2.9	-5.7	5.5	2.8	-4.1	3.9
OECD[2]	2.1	2.3	1.7	-7.5	4.8	1.6	-6.1	3.7
United States	2.4	2.9	2.3	-7.3	4.1	2.3	-7.4	4.6
Euro area	1.6	1.9	1.3	-9.1	6.5	1.0	-5.6	3.2
Japan	1.0	0.3	0.7	-6.0	2.1	-0.7	-3.2	0.6
Non-OECD[2]	4.3	4.4	3.5	-4.6	5.6	3.4	-3.3	4.2
China	7.0	6.7	6.1	-2.6	6.8	5.9	-0.7	4.0
India[3]	6.8	6.1	4.2	-3.7	7.9			
Brazil	0.0	1.3	1.1	-7.4	4.2			
Unemployment rate[4]	6.7	5.5	5.4	9.2	8.1	5.3	9.4	7.7
Inflation[1,5]	1.6	2.4	1.9	1.1	1.3	1.7	0.9	1.6
Fiscal balance[6]	-3.6	-2.9	-3.3	-11.1	-7.1			
World real trade growth[1]	3.3	3.9	1.1	-9.5	6.0	1.1	-7.9	5.1

1. Percentage changes; last three columns show the change over a year earlier.
2. Moving nominal GDP weights, using purchasing power parities.
3. Fiscal year.
4. Per cent of labour force.
5. Private consumption deflator.
6. Per cent of GDP.

Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934140430

Given the exceptional level of uncertainty, flexible and agile policies are needed to cope with possible renewed virus outbreaks, exit strategies that differ across sectors, and the challenges that will be left by the deep collapse in output. Should another virus outbreak occur, as assumed in the double-hit scenario, or the recovery prove unexpectedly weak, it will fall to fiscal policy to provide additional stimulus given the limited scope for further monetary policy easing. However, in this case it might be necessary for the monetary authorities to boost programmes to support liquidity and lending and ensure interest rates remain low along the yield curve.

Even if another outbreak of the pandemic does not occur, supportive fiscal and monetary policy stances should be maintained in order to foster a durable recovery, with some industries likely to experience lower levels of activity for some time. The deterioration in the public finances in the current year will be offset to some extent in 2021 by a cyclical budget improvement and the scaling down of emergency measures, but budget deficits and debts will remain much higher than in 2019. Given the likely fragility of the recovery, and subdued inflation, care should be taken not to withdraw emergency measures too quickly or, if such measures are terminated, to substitute them with others that provide stronger stimulus to the economy. Monetary policy should remain very accommodative and ensure that interest rates remain low to prevent the crowding out of private spending.

The crisis will cast a long shadow over the world and OECD economies. By 2021, it will have taken real income per capita in the majority of OECD economies back to 2013 levels in the double-hit scenario and to 2016 levels in the single-hit scenario. It may permanently reduce potential output due to the premature scrapping of capital that is likely to accompany higher bankruptcies, and hysteresis in labour markets as unemployment spells lengthen. A renewed effort to implement reforms that strengthen productivity and employment growth in an inclusive way, and foster the reallocation of resources across sectors, is needed to counter these negative crisis-related shocks. Likewise, the temporary disruption to global value chains during the crisis could prompt businesses to enhance resilience by permanently diminishing their supply chains and reducing inputs from efficient but distant providers, thereby harming global efficiency and income.

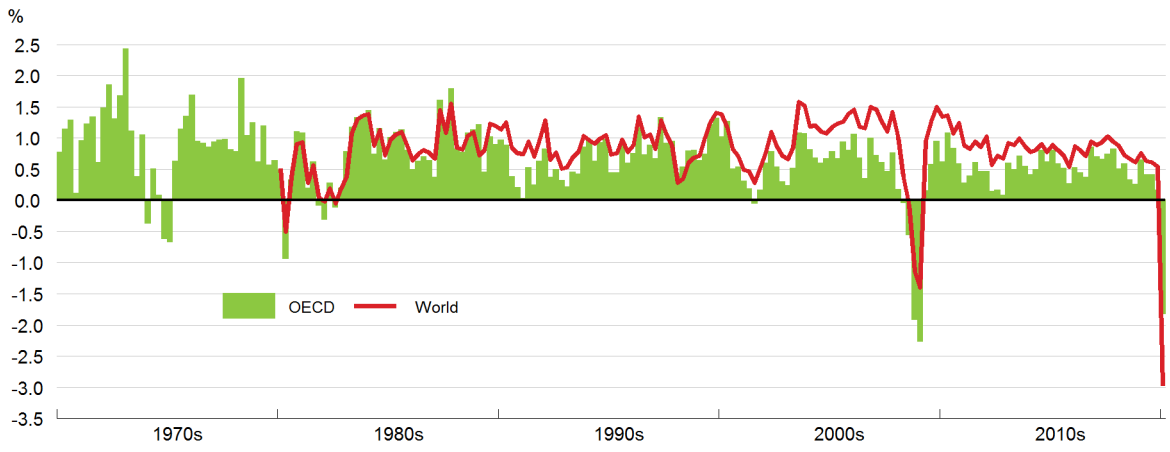
Stronger international co-operation is needed to help end the pandemic more quickly, speed up the global economic recovery, and avoid harming the catch-up process of emerging-market economies and developing countries. The sharing of knowledge, medical and financial resources, and reducing harmful bans to trade, especially in healthcare products, are essential to address the challenges brought by the pandemic.

Global activity has collapsed suddenly

The pandemic and the necessary containment measures used to limit its spread have closed down large segments of economies around the world this year, triggering sharp and sudden contractions in output, spending and employment. Global GDP is estimated to have declined by around 3% in the first quarter of 2020, even though containment and mitigation measures were introduced only during the course of March in many countries (Figure 1.1). Activity declined sharply in China, the initial centre of the pandemic, with the level of output 10% below that in the fourth quarter of 2019. Other economies in Asia with strong links to China through supply chains and tourist flows also experienced output contractions. Amongst the other major advanced economies, output declined more sharply in the euro area than in the United States and Japan, reflecting the earlier and more stringent shutdown measures implemented in many European economies and weak underlying growth momentum prior to the shutdowns.

Figure 1.1. Global activity declined abruptly in the first quarter of 2020

Percentage change in GDP, quarter-on-quarter



Source: OECD Economic Outlook 107 database.

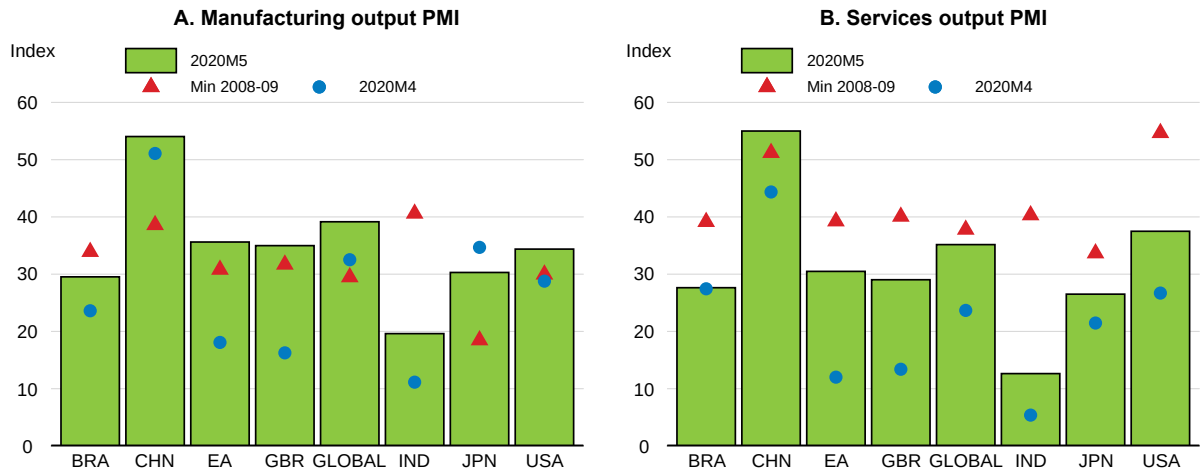
StatLink https://doi.org/10.1787/888934140050

The full impact of the shutdowns has resulted in an even larger global output decline in the second quarter of 2020. Unexpected supply-side shocks have disrupted many businesses, with the closure of non-essential activities and restrictions on travel creating difficulties in operating effectively and impairing relationships with key suppliers. Demand also weakened abruptly, particularly for many consumer goods and services in which there is close contact between producers and consumers, and for travel and tourism activities. This has caused large revenue losses and a severe liquidity shock for many companies (see below). Sharp declines in consumer confidence and rising unemployment, are restricting household consumption and adding to precautionary saving. Small and medium-sized enterprises (SMEs) have been particularly affected, with many operating in the service sectors most directly impacted by shutdowns, and having limited financial buffers to cushion sharp drops in turnover (OECD, 2020a).

Illustrative OECD benchmark estimates in March suggested that around one-quarter of the economy could be shut down directly in many countries following the implementation of stringent containment measures to mitigate the pandemic, with consumers' expenditure potentially cut back by around one-third (OECD, 2020b). Available estimates in other countries point to broadly comparable declines in some, but smaller effects in those countries adopting less stringent containment measures (Chapter 2, Issue Note 1). In all countries, activity declines have been relatively concentrated in a handful of job-intensive sectors, particularly retail and wholesale trade, accommodation and food services. Linkages with suppliers, and the constraints on labour availability in sectors where teleworking is limited, have added to the disruption in other parts of the economy (OECD, 2020b), particularly in manufacturing industries. Weaker confidence, and disruptions to cross-border supply chains, have further raised these effects.

Early data have already made clear that the economic and social costs of the pandemic are large. Business survey indicators plummeted to record lows in most countries in April, with the declines particularly marked in service sectors, in contrast to the pattern normally seen during recessions (Figure 1.2). Despite some mild recovery in May, as countries began to exit slowly from confinement, most indicators remained at low levels. Many service sectors continue to be impacted significantly by distancing measures, the closure of non-essential businesses, and restrictions on mobility.

Figure 1.2. Survey measures of business activity remain exceptionally weak

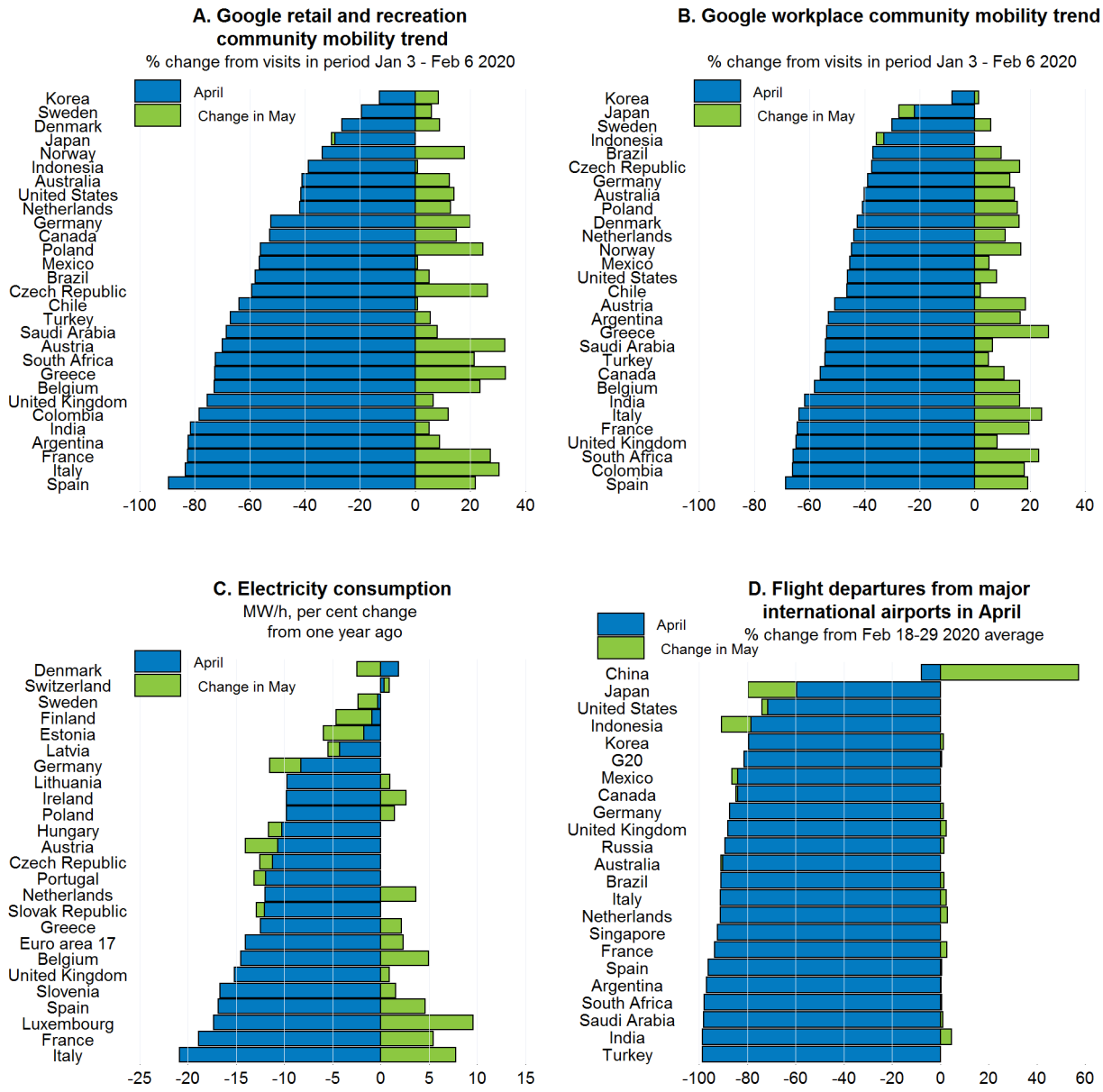


Source: Markit; and OECD calculations.

High-frequency indicators illustrate the extent to which some activities have now begun to restart following the gradual introduction of exit measures in many countries, but also continue to highlight important differences across countries (Figure 1.3). Daily measures of mobility, travel and workplace attendance plummeted in March and April, electricity consumption declined markedly and many leisure and tourist activities virtually ceased. Such changes were particularly marked in many large European countries and emerging-market economies, such as India, South Africa and Argentina, with relatively strict and tightly enforced containment measures. Smaller declines occurred in some Asian economies where greater use has been made of effective TTT procedures to contain the virus outbreak rather than full shutdowns, and in the United States. The ongoing recovery in China following the relaxation of containment measures in February, particularly in manufacturing sectors, has also helped to limit the decline in overall global activity to some extent. Data for May suggest that the full impact of containment measures has begun to ease gradually in most economies, though Japan where shutdown measures began relatively late, is an exception (Figure 1.3, Panels A and B). Activity in some sectors, such as air travel, also remains very weak.

Spending on some consumer durable goods, such as cars, has fallen exceptionally sharply. Global car sales in March and April were 37% lower than the monthly average in 2019, with a gradual recovery of demand in China offset by weakness elsewhere. Sales of new vehicles came to a virtual halt in April in many countries, including Spain, Italy, the United Kingdom and South Africa. Sales in the euro area and the United States in April were around one-fifth and one-half respectively of the level in 2019. High uncertainty and the collapse in demand for many businesses have further weakened the outlook for investment. Production of capital goods in the major advanced economies declined by around 12% in the first quarter of 2020, after having already fallen in the latter half of 2019, and survey measures of investment intentions have dropped sharply.

Figure 1.3. High-frequency data point to sharp contractions in activity during shutdowns



Note: Data in all panels are monthly averages of available daily data. Data in Panels A and B for May cover the period until 29 May, 2020. Data in Panel D refers to flight departures from the major international airport in each country apart from China, where an average of departures from Beijing Capital International Airport and Shanghai Pudong International Airport is used, and the United States, where an average of departures from Atlanta Hartsfield-Jackson International Airport and Los Angeles International Airport is used.

Source: Google LLC "Google COVID-19 Community Mobility Reports", https://www.google.com/covid19/mobility/ accessed 04/06/2020; European Network of Transmission System Operators; Flightradar24.com; and OECD calculations.

StatLink https://doi.org/10.1787/888934140069

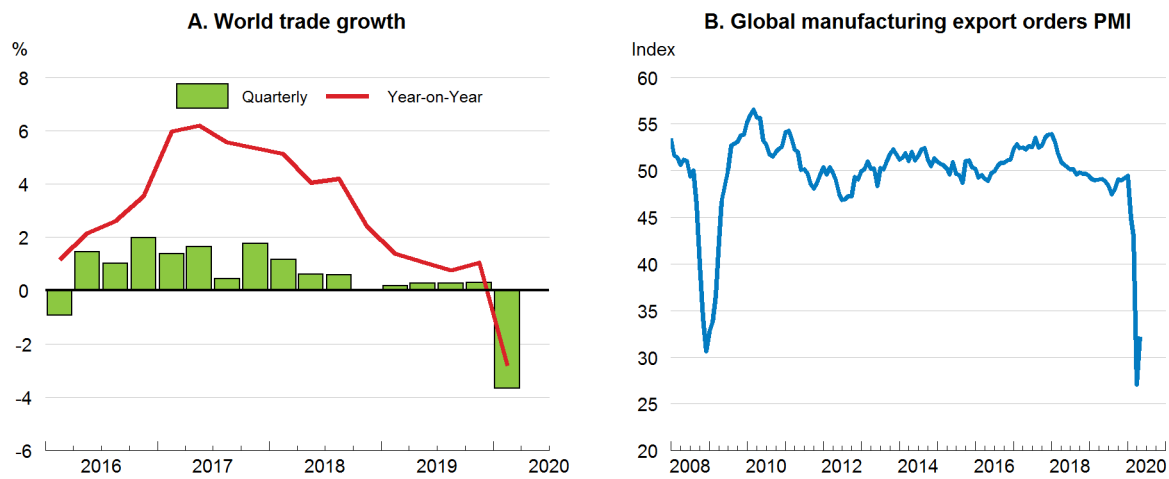
Labour market conditions have deteriorated considerably, with unemployment claims and applications for short-time work schemes soaring, reflecting job losses and reduced work hours. In the United States, an unprecedented shock has occurred in the labour market. The number of people in non-farm payroll employment in May was over 13% lower than in February, undoing to all of the job growth achieved over the past decade. The unemployment rate has also soared, averaging 14% in April and May, the highest

since the Great Depression, with a broad measure of unemployment plus the under-employed (U6) now over 20%. Extensive government-funded schemes have helped to limit the rise in unemployment in the large European economies, particularly for workers with permanent contracts, with around 20-25% of the private sector workforce being supported by short-time work or wage support schemes in the major European economies. Labour market changes have so far been less marked in Japan, reflecting differences in the timing and extent of shutdowns, but the unemployment rate has edged up and consumers' assessment of labour market conditions fell to a record low in April and May. A rise in teleworking since the start of the crisis has cushioned working hours in many countries, but survey evidence suggests that under one-half of workers are able to telework regularly (ONS, 2020; Statistics Canada, 2020).

World trade is also now contracting sharply, with the volume of goods and services estimated to have fallen by 3¾ per cent in the first three months of 2020 (Figure 1.4). Air traffic has been particularly hard hit, with international passenger traffic in April over 98% lower than a year earlier, and international freight traffic in April close to 30% below the level a year earlier. Disruptions to suppliers due to containment measures and the virtual cessation of international travel have added to the effects of the collapse in demand. Global export orders fell to their lowest level on record in April and remained exceptionally weak in May, with all countries reporting sizeable declines. These declines have been especially deep in Europe and some emerging-market economies, particularly India and Indonesia. Even in countries where containment measures have been relatively light, many businesses are being impacted severely by a sharp fall in external demand.

Risk aversion in financial markets rose substantially at the beginning of the COVID-19 outbreak but has eased recently. The rapid spread of the pandemic and the strict containment measures adopted by governments prompted massive declines in financial asset prices and a spike in volatility, with some markets ceasing to function properly. In many countries, equity prices collapsed by 30-50% and at the fastest daily pace since 1987, and equity price volatility soared above the levels in the global financial crisis (Figure 1.5, Panels A and C). Long-term government bond yields have declined substantially in many advanced economies, reflecting monetary policy easing and a flight to safety, but spreads have risen on

Figure 1.4. World trade is now collapsing



Source: OECD Economic Outlook 107 database; Markit.

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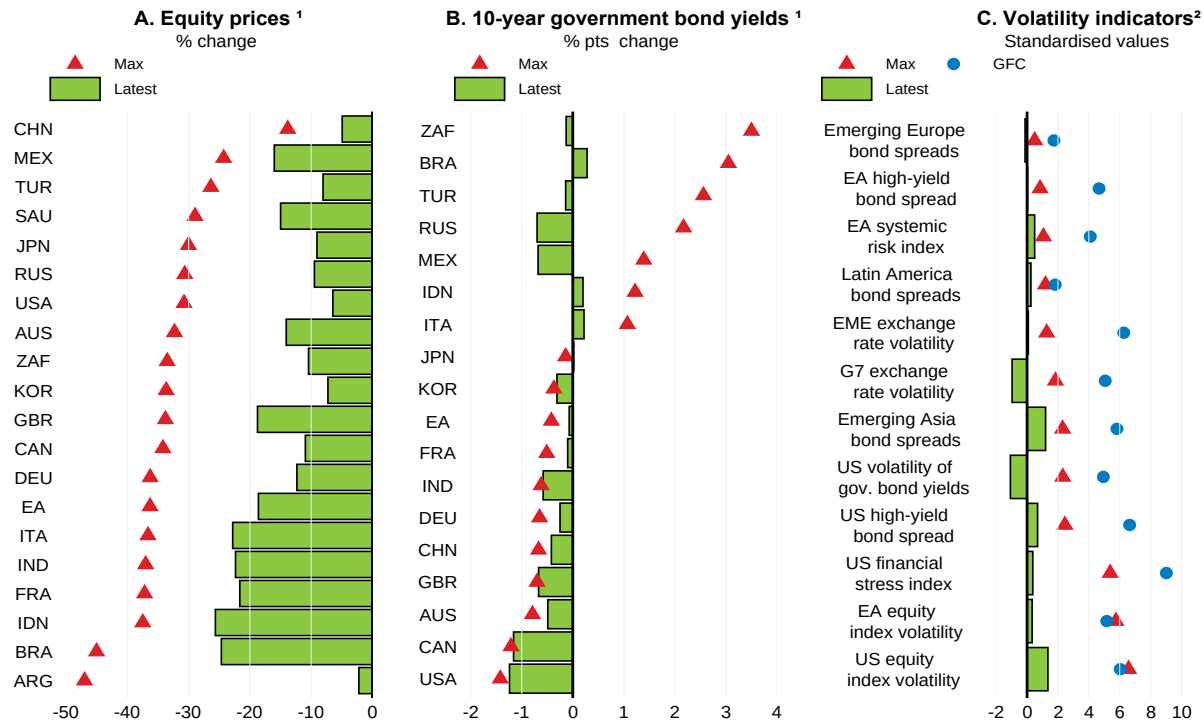
many emerging-market government bonds, amidst record high capital outflows and a substantial appreciation of the US dollar (see below). Corporate bond spreads have also risen, particularly for the lowest rated borrowers, with rising risks of downgrades due to the recession and pre-crisis vulnerabilities related to the high level of indebtedness and deteriorated credit quality (see below). Spreads also increased for investment-grade corporate bonds with lower default risks, given strong demand for cash by investors and their readiness to raise cash by selling such liquid instruments (Haddad et al., 2020). Rapid and sweeping responses by central banks, including through the activation of international liquidity lines (see below), have helped to restore some stability, with a partial reversal in financial asset price moves and lower volatility. Still, in many large economies, equity prices are 10-20% below the end-2019 levels, and volatility and spread measures somewhat higher than six months ago (Figure 1.5, Panel C).

Figure 1.5. Financial market tensions have increased



Note: "Latest" refers to the change between end-2019 and the latest available data up to 4 June. "Max" refers to the maximum change since end-2019. "GFC" refers to the maximum during the global financial crisis (between mid-2008 and mid-2009).

1. Based on a 10-day average of daily observations.
2. Standardised values indicate how many standard deviations a given observation is from the historical mean of the variable. The mean and standard deviation are calculated for the whole sample of each variable. High-yield bond spreads are the yield difference between high-yield corporate bonds and 10-year government bonds in the euro area (EA) and the United States (US). Emerging Asia, Latin America and Emerging Europe bond spreads are the difference between yields on US-dollar denominated bonds issued in the regions indicated and US Treasury bonds, based on the JP Morgan emerging-market bond indices. Emerging-market economies (EME) and G7 exchange rate volatility refer to region aggregated option implied volatilities in exchange rates.
Source: European Central Bank; Factset; Federal Reserve Bank of St. Louis; Refinitiv; and OECD calculations.

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The evolution of the COVID-19 pandemic and exit strategies is uncertain

The COVID-19 outbreak is the most serious global health crisis since the Spanish flu pandemic just over a century ago. Since the outbreak started in China in December 2019, it has spread across the world, with most countries affected. In early June, confirmed cases globally had reached more than 6½ million and around 380 thousand deaths had been registered. While global infection and fatality rates are so far well below those estimated for the Spanish flu pandemic,[1] both are likely to be under-recorded to a varying extent across countries and measured in different ways. Confirmed cases are likely to be only a fraction of all cases because of low testing intensity among the general public and the prevalence of asymptomatic cases that go undetected. Recorded death rates are also subject to important measurement problems.[2] Under-reporting is likely to be particularly acute in some emerging-market economies and developing countries, reflecting low capacity in their healthcare sectors and different policy choices to deal with the pandemic. Lack of comprehensive and standardised high-quality data that would allow the epidemiological characteristics of the COVID-19 virus to be better understood makes the outlook for the pandemic uncertain (Box 1.1).

Box 1.1. The epidemiological outlook is uncertain

Incomplete data and insufficient knowledge about the nature of the new virus make it uncertain how the pandemic will evolve:

- The COVID-19 virus is highly infectious, but the extent of its infectiousness is uncertain. The consensus is that the reproduction rate (i.e. how many susceptible people each person with the pathogen infects, R0) is between 2 and 3 in the absence of containment measures, but higher numbers are also reported (Katul et al., 2020). In the absence of measures to control the outbreak by suppressing contact rates – the non-biological factor of the reproduction rate – such high numbers would imply high eventual population infection rates. If reporting is accurate, the low incidence of accumulated confirmed cases suggests that lockdowns and other restraining measures have succeeded in reducing the effective reproduction rate to below unity, in which case infections could rise sharply again when such measures are relaxed. However, if there is widespread under-reporting, the lifting of restrictions would be accompanied by a smaller increase in infection rates.
- Indeed, the true extent of the infection of the population, and how close it is to the levels needed for herd immunity, is controversial. Evidence from countries with high testing intensity (e.g. Iceland and Luxembourg) and recent national studies (e.g. France and the Czech Republic) indicate that only around 6% of the national population has been infected. This is well below the level required for herd immunity given the likely basic reproduction rate for the virus. And the degree and duration of immunity obtained through infection, the premise for herd immunity, is still uncertain.

[1] The Spanish flu is estimated to have infected 500 million people, a third of the global population at the time, and caused at least 50 million deaths (Johnson and Mueller, 2002; Taubenberger and Morens, 2006). In contrast to the current COVID-19 pandemic, the Spanish flu took a heavy toll on working-age people, with around a half of all deaths estimated to have occurred among individuals aged between 15 and 40 (Simonsen et al., 1998).

[2] For example, reported COVID-19 deaths may be confined to hospitals and other healthcare establishments in some countries and more broadly in others, and there may be variations in recording the cause of death when diseased persons have multiple health issues in addition to the virus infection.

- Early estimates of the case fatality rate ranged from 0.4% to 3.8% (WHO, 2020), and have tended to rise with time as infections have spread globally. The wide range of estimates are suggestive of the importance of other biological factors, such as chronic diseases, and possible non-biological factors, such as healthcare capacity, in determining mortality rates from the virus.
- The possible seasonality of the virus is yet to be confirmed. To the extent that hot temperatures and wetness weaken the virus, infections should diminish in the Northern Hemisphere in the coming months, but the reverse would be the case for the Southern Hemisphere. But seasonality would also imply that a new outbreak emerges in the Northern Hemisphere later in the year.
- The timing of a discovery of vaccine is inherently uncertain, and hence the time when the virus is no longer a threat to human life. It can take six to seven years to develop and mass-produce new vaccine. However, a vaccine for COVID-19 could be developed in 12 to 18 months, given the extraordinary global efforts that the scientific community and pharmaceutical companies are making towards this end. Even so, it remains to be seen how quickly a vaccine can be found and distributed to the general population.

Healthcare capacity is being increased

The capacity of the healthcare sector to deal with COVID-19 infections will have an important bearing on the future course of government measures to contain the pandemic. Indeed, the measures put in place in recent months in many countries were designed to reduce the peak of the outbreak to levels that healthcare facilities, including intensive care units (ICUs) in the hospital sector, could cope with. There is little cross-country comparative data available on ICU beds.[3] Non-standardised data suggest that some countries (including Germany and the United States) entered the outbreak with significantly higher capacity than others (OECD, 2020c). However, the hard-hit countries in Europe (France, Italy, Spain and the United Kingdom) have all been able to expand their ICU capacity significantly, and are better placed than before to cope with a new outbreak. In many emerging-market economies and developing countries, ICU capacity is very limited or negligible. As discussed below, enhanced testing capacity and the availability of personal protective equipment (PPE) are required to allow added flexibility in the choice of future containment policies.

The exit from lockdown and containment measures

The exit from lockdown and other containment measures is now underway and exit strategies have been announced in several countries. This has been prompted by signs that new infection and death rates are stabilising or declining, and the perceived economic need to restart economic activity and social life. In many countries, the strategies are gradual, with movement from one stage to another being conditional on epidemiological and healthcare capacity criteria being met.

The scaling down of shutdown and confinement measures is accompanied by strict requirements on PPE in most countries, including the obligatory wearing of masks in some public places and employers' provision of such equipment. Personal interactions are also limited, such as ceilings on the number of customers in stores at any time, requirements that distance rules be observed and reductions in school class sizes. These raise the cost of doing business and limit the speed of the recovery, as many businesses will only be able to reopen with significantly reduced capacity. Also, some measures, notably limits on people crossing national borders, look set to remain in force at least partially for a protracted period, with

[3] The definition in OECD health statistics on "Curative care (acute care) beds in hospitals" is broader than ICU beds, and the number of beds is typically of an order of magnitude larger than the number currently referred to for ICU bed capacity.

an adverse impact on international tourism and operations of multinational companies. Voluntary physical distancing and companies' concerns over potential liabilities from employees becoming infected in the workplace may further damp the recovery.

An essential part of a successful exit strategy is to develop large-scale effective TTT programmes (OECD, 2020d). As long as no vaccine is available and shutdown restrictions are eased, it will be crucial to suppress local outbreaks quickly before they spread more widely. This requires testing more people to identify who is infected; tracking and isolating them to make sure they do not spread the disease further; and tracing others they have been in contact with. In addition, intensive testing can identify people who have developed immunity and can safely return to work; and provide more solid information about the evolution of the pandemic.

In event of a further general virus outbreak later in the year, large-scale TTT programmes would allow governments to apply more targeted measures than in the first outbreak. Increased hospital capacity, due to both expansion of ICU beds and the experience gained by healthcare workers, and increased availability of PPE may also lessen the need to apply very restrictive nationwide shutdowns and other strict containment measures. Even so, another intensive outbreak would be very likely to result in renewed containment measures, albeit smaller in scope.

Two epidemiological scenarios

Given the uncertainties listed above, two possible epidemiological scenarios can be considered for the coming 18 months.

- A double-hit scenario: The current easing of containment measures is assumed to be followed by a second, but less intensive, virus outbreak taking place in October/November. This could be because of seasonal factors in some countries, particularly in the Northern Hemisphere, or because containment, test, tracing and isolating is not as efficient as expected. It could also reflect insufficiently high cumulative infection rates to generate adequate herd immunity, a lack of suitable treatment measures and the unavailability of a vaccine. Further outbreaks in 2021 are assumed to be avoided due to pharmaceutical breakthroughs, but these remain a significant downside risk.
- A single-hit scenario: The current containment measures are assumed to successfully overcome the current outbreak, with the effective reproduction rate declining and staying persistently below unity. Higher hospital capacity and the widespread roll-out of effective testing, tracking and treating are assumed to be sufficient to prevent a resurgence in infections and intensive cases later in the year and until a vaccine becomes available.

Short-term outlook scenarios for an uncertain global economy

The current conjuncture and the outlook are exceptionally uncertain. Growth prospects depend on many factors, including the magnitude and duration of national shutdowns, the pace at which containment measures are eased, the impact on confidence, and the speed at which the significant fiscal and monetary policy support put in place by governments and monetary authorities takes effect. The unwinding of restrictive measures has begun in most countries, but the strategies adopted differ across countries, regions and sectors. Restrictions on some activities, such as international travel and spectator sports, are likely to persist for some time in many economies. Considerable uncertainty is also likely to prevail for an extended period, holding back investment, even if a fresh wave of the pandemic can be avoided. Many businesses in the service sectors most affected by shutdowns are likely to be insolvent if sufficient capacity cannot be restored and demand does not recover, with attendant job losses. Rising unemployment is also likely to push up precautionary saving by households, and for millions of informal workers the crisis worsens the risk of poverty and deprivation. In a world strongly interconnected through supply chains, international tourism flows and investment, all economies are affected significantly by the disruptions to demand and supply, irrespective of the strength of the national measures taken to contain the impact of

the pandemic. Pre-existing vulnerabilities, such as high corporate debt and its declining quality, and trade tensions between major economies, could also deepen the downturn and slow any subsequent recovery.

Given this uncertainty, two conditional scenarios have been developed to reflect the possible evolution of the global economy. The difference between the two scenarios is that the double-hit scenario is conditioned on an assumption that renewed shutdowns are implemented in all economies in the fourth quarter of 2020, following a further marked global outbreak of the COVID-19 virus. These shutdowns are assumed to be around one-half of those already implemented in the first half of the year, and be eased at different rates across sectors after 2-3 months.

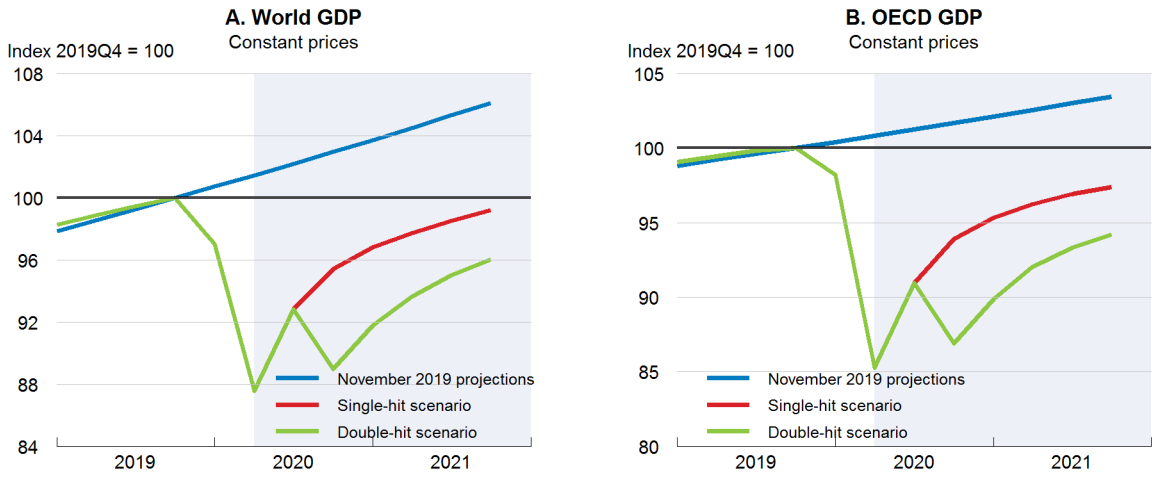
The current deep recession will be followed by a slow recovery

All countries are projected to experience a deep recession in 2020 followed by a slow and gradual recovery in 2021 in both scenarios. In the double-hit scenario, global GDP is projected to decline by just under 7¾ per cent in 2020, before rising by around 2¾ per cent in 2021 (Figure 1.6, Panel A). Output declines are even stronger in the OECD economies, with OECD GDP projected to drop by 9¼ per cent in 2020 (Figure 1.6, Panel B). Under the single-hit scenario, there is still a very large drop in output this year, with projected declines in global GDP and OECD GDP of 6% and 7½ per cent respectively in 2020. However, growth prospects are somewhat stronger in 2021, helped by strong carryover effects from a gradual resumption of activity during the latter half of 2020, with global GDP projected to rise by around 5¼ per cent next year.

At its peak, in the second quarter of 2020, an unprecedented decline in activity is estimated to have occurred (Figure 1.7), with the level of world output around 12½ per cent lower than in the fourth quarter of 2019, and with GDP in the euro area declining by over 18%. Supportive policy measures are helping to mitigate the full impact of this decline on households and companies through short-time work and income support schemes, tax deferrals and credit guarantees (see below). However, any subsequent recovery is likely to prove slow and gradual even if, as assumed, the progressive relaxation of containment measures results in an initial improvement in the level of economy-wide output and renewed outbreaks of the virus do not occur. Many service sector companies are likely to have to operate well below full capacity for an extended period, with foregone consumption of the services during shutdowns unlikely to be regained. Some companies are likely to become insolvent, raising the risks of a further round of job declines, income losses and impaired assets on bank balance sheets at a time when emergency government schemes are currently due to have come to an end.

The renewed outbreak assumed to occur in the fourth quarter of 2020 in the double-hit scenario results in substantial further easing in activity while it lasts (Figure 1.6). Global output is projected to fall by 4¼ per cent in the fourth quarter of 2020 in this scenario, and output in the OECD economies to decline by around 4½ per cent. This would leave the level of global output 11% lower at the end of 2020 than a year earlier, representing a large and sustained collapse in activity without precedent since the Great Depression. OECD GDP would be even weaker, 13% lower than at the end of 2019. Even if further policy support is provided, such a long period of stress on many companies, particularly in sectors where activity would be severely restricted once again, is likely to result in substantial and rising bankruptcies and job losses.

Figure 1.6. A collapse in output followed by a slow recovery



Note: November 2019 projections are from the November 2019 OECD Economic Outlook.
Source: OECD Economic Outlook 107 database; and OECD Economic Outlook 106 database.

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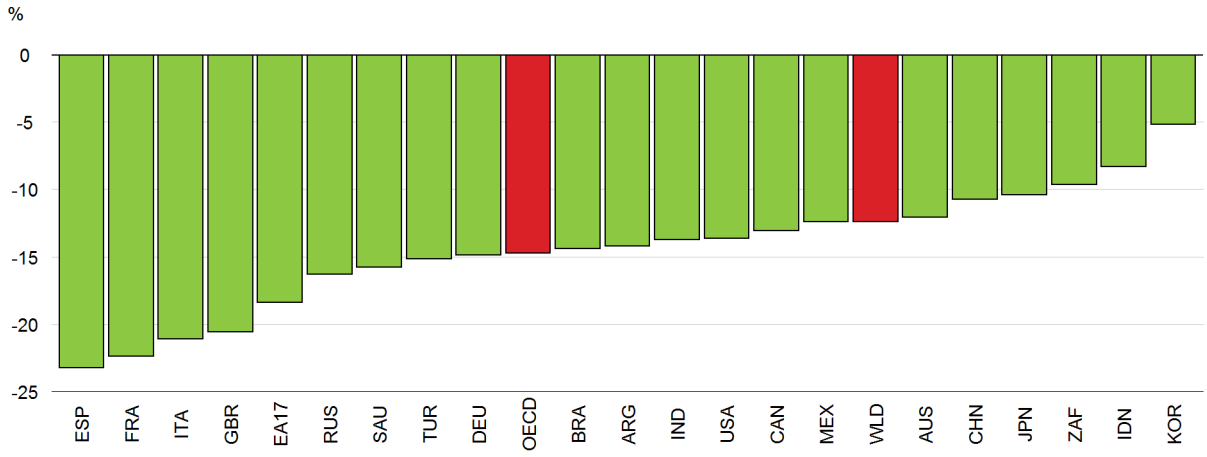
Figure 1.7. An unprecedented output collapse is occurring in the first half of 2020

Per cent change in GDP between 2019Q4 and 2020Q2



Note: GDP at constant prices. Data for China refer to the change in output between 2019Q4 and 2020Q1.
Source: OECD Economic Outlook 107 database.

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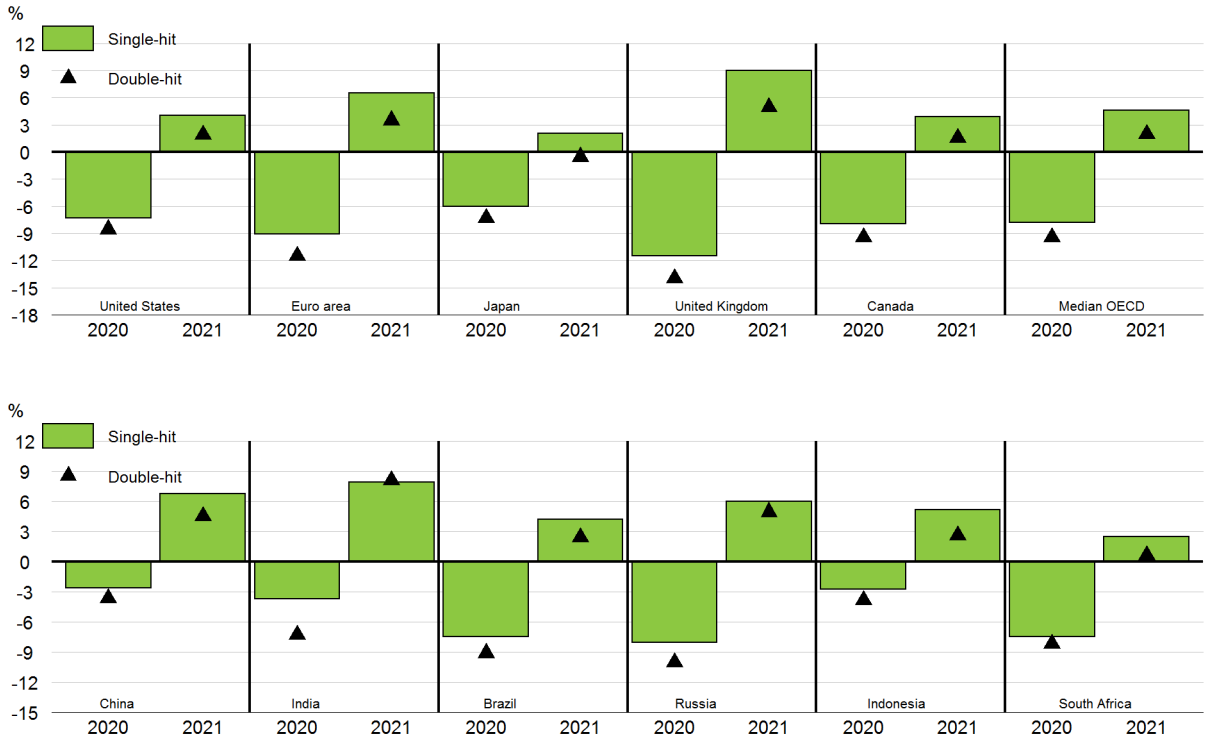
There are sizeable differences in growth prospects across the major economies (Figure 1.8), although output declines are projected in all of them this year. Moreover, in most, the level of output at the end of 2021 is projected to be below that at the end of 2019, and considerably weaker than past projections would have suggested (Figure 1.9).

- Amongst the advanced economies, GDP is projected to be particularly weak in Europe this year, reflecting the implementation of stringent containment measures over a comparatively long period. Euro area GDP in 2020 is projected to be 11½ per cent lower than in 2019 in the double-hit scenario, and just over 9% weaker in the single-hit scenario. In the United States and Japan, GDP is projected to fall by 8½ per cent and 7¼ per cent respectively in the double-hit scenario, and decline by 7¼ per cent and 6% respectively in the single-hit scenario. This reflects the later and shorter implementation and lower stringency of containment measures, both in the second quarter of 2020 and in the assumed renewed virus outbreak in the fourth quarter of 2020. Korea is a notable outlier amongst the larger advanced economies in 2020, with output projected to drop by only around 1¼ per cent relative to 2019 in the single-hit scenario and 2½ per cent in the double-hit scenario, helped by less stringent and well-targeted containment measures. These cross-country differentials are reflected in the projections once recoveries get underway, with growth projections for 2021 typically stronger in those economies experiencing the largest output collapses from containment measures.
- Many emerging-market economies and developing countries, particularly commodity producers, are experiencing considerable difficulties due to the dual health and economic crisis. The impact of the coronavirus pandemic is extremely challenging, with health systems often lacking the resources required to respond effectively, and plummeting commodity prices, declining remittances, weak external demand and tighter financial conditions compounding this challenge. The level of GDP in 2020 is projected to be 7% or more below that in 2019 in Brazil, Russia, South Africa and Mexico in both scenarios, and in Turkey in the double-hit scenario. Outcomes in some large emerging-market economies in Asia are more muted. Smaller output declines of between 2½-4 per cent are projected in China and Indonesia in 2020 in both scenarios, helped by the beneficial effect of lower commodity prices on real incomes. India will also benefit from lower commodity prices, but is still projected to experience a substantial activity drop in FY 2020-21, with GDP some 7¼ per cent lower than in FY 2019-20 in the double-hit scenario and 3¾ per cent lower in the single-hit scenario. Output is projected to either be close to or above the end-2019 level in both scenarios (Figure 1.9), as in China and Indonesia, but this still represents a large unexpected shortfall in incomes given prior expectations for GDP growth of between 5-6% per annum.

Figure 1.8. Output is projected to decline in all economies this year

Annual GDP growth, per cent



Note: Data for India are on a fiscal year basis.
Source: OECD Economic Outlook 107 database.

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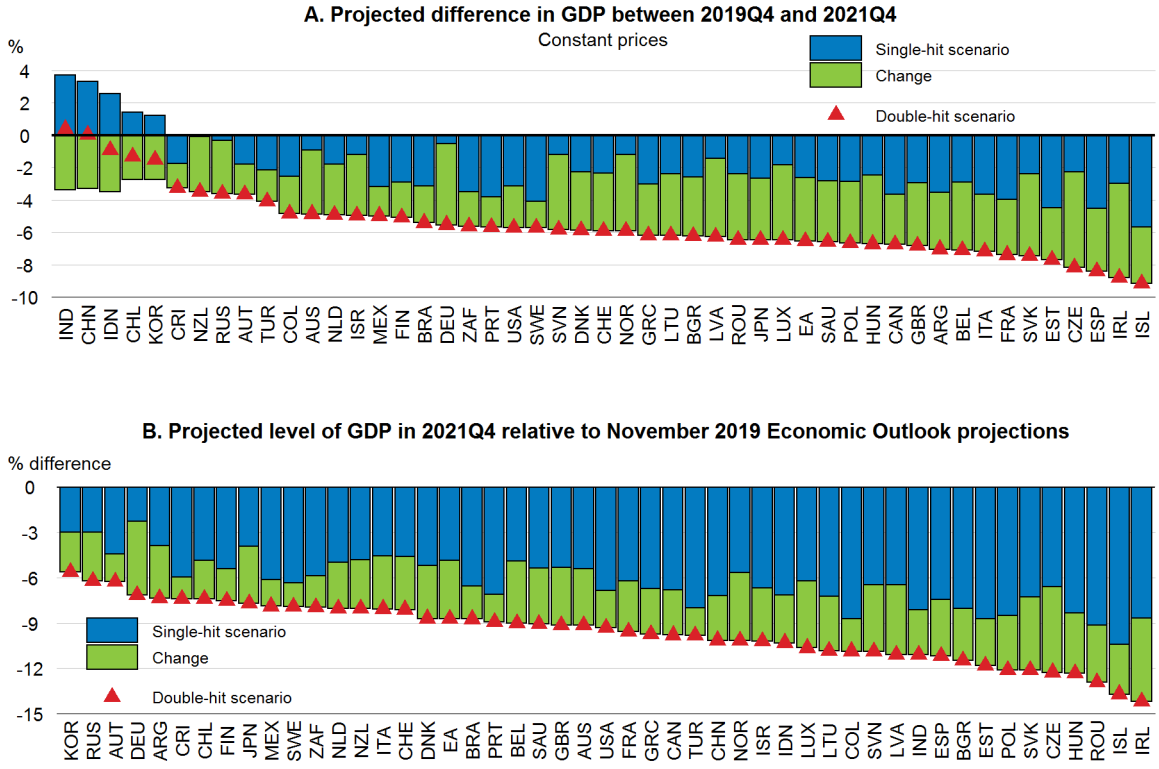
Private consumption and fixed investment are both expected to decline sharply this year before slowly recovering in 2021. The collapse in activity in the first half of 2020 has been driven by lower consumer spending, reflecting the closure of non-essential businesses, avoidance of travel, and subdued confidence. At the same time, household saving has risen sharply, with labour incomes supported in many countries by government measures for furloughed employees. High uncertainty, weak confidence and employment declines are likely to keep precautionary saving elevated for some time, but spending levels should recover slowly as containment measures are relaxed and shops reopen. Weaker demand, elevated uncertainty and liquidity shortages are likely to weaken investment substantially this year and check the prospects for a rapid pick-up in 2021. In event of a renewed virus outbreak later this year, uncertainty would intensify further for an extended period, with additional precautionary saving, weaker household spending, and substantially softer investment prospects.

- In the OECD economies, the level of consumer spending in 2020 is projected to be around 10¾ per cent weaker than last year in the double-hit scenario and 8½ per cent lower in the single-hit scenario, before picking up through 2021. The level of fixed investment in the OECD economies in 2020 is projected to be around 12¾ per cent weaker than in 2019 in the double-hit scenario, and 10½ per cent softer in the single-hit scenario.
- Larger declines in investment are projected in many emerging-market economies, reflecting greater financial stress in some countries, highly-leveraged corporate sectors and sharp declines in confidence. In the double-hit scenario the level of investment is projected to decline by over 13% in 2020 in Brazil, India, Mexico, Turkey and South Africa.

Figure 1.9. Output is set to remain weak for an extended period



Note: November 2019 projections are from the November 2019 OECD Economic Outlook and are rescaled to account for subsequent changes in the base years in country national accounts.
Source: OECD Economic Outlook 107 database; and OECD Economic Outlook 106 database.

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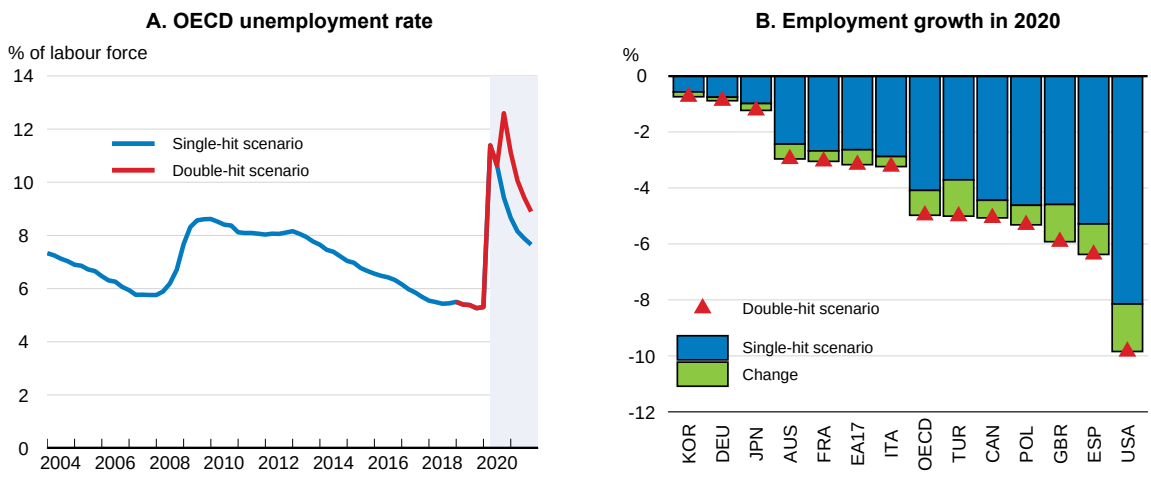
Fiscal actions help to support activity in 2020, both through special schemes to support incomes or employment during the shutdown, and through stronger final spending. In the OECD economies, government final consumption is projected to rise by between 4 and 4¼ per cent in 2020, after rising by around 2% per annum on average in 2018-19, with relatively strong growth in the United Kingdom, Korea, Australia, Japan and Germany. The exceptional additional monetary policy support measures introduced since the start of the pandemic are also important for economic stabilisation and limit debt service burdens as countries begin to ease containment measures, but are less likely to have strong effects on the subsequent pace at which domestic demand recovers (OECD, 2019a). There are many signs that the impact of very low interest rates and high asset prices on final domestic demand has been relatively modest in recent years, possibly because expectations of persistent low interest rates reduce the incentive to bring spending forward. Financial asset price gains are also relatively concentrated in households with a lower propensity to consume out of wealth.

Labour market conditions are projected to deteriorate significantly. Unemployment in the OECD economies, which had declined to a fifty-year low at the end of 2019, is projected to have more than doubled by the middle of this year to around 11½ per cent, well above the level seen during the global financial crisis (Figure 1.10). As economies begin to reopen, unemployment is projected to moderate gradually, but remain substantially above the level prior to the pandemic outbreak, reflecting the scale of immediate job losses in some countries, and the likely declines in employment in others as temporary wage and employment support schemes come to an end in the latter half of 2020. In the double-hit scenario, unemployment remains at high levels for even longer in the OECD economies after peaking at around 12½ per cent in the fourth quarter of 2020, raising the risk of hysteresis as long-term unemployment becomes entrenched, and diminished labour force participation from discouraged workers. The OECD-wide unemployment rate is projected to be close to 9% at the end of 2021 in this scenario, still above the peak seen during the global financial crisis and 3½ percentage points above the rate at the end of 2019 (Figure 1.10). Significant slack in labour markets would in turn place further downward pressure on wage and income growth.

Job losses and subsequent re-hiring are particularly pronounced in the United States, with the surge in the unemployment rate in April and May this year only easing to around 10% at the end of 2021 in the double-hit scenario, and 8¼ per cent in the single-hit scenario. Sharp rises in unemployment are also projected in the United Kingdom and Spain, as well as in some smaller open economies, although temporary support programmes are cushioning labour incomes in the near term. Smaller changes are projected in Germany, France and Italy with job losses moderated by their respective schemes to support employment, and in Japan (OECD, 2020e; Chapter 2, Issue Note 5).

Figure 1.10. The crisis is resulting in sizeable job losses and high unemployment



Source: OECD Economic Outlook 107 database.

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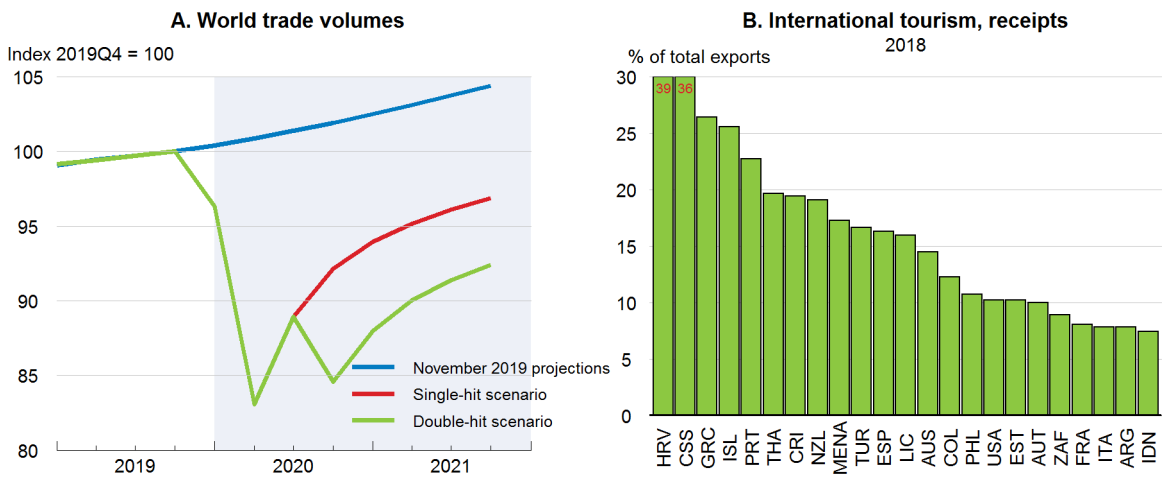
World trade was already weak prior to the pandemic outbreak and is projected to decline by 11½ per cent in the double-hit scenario in 2020, and 9½ per cent in the single-hit scenario, before picking up in 2021 (Figure 1.11). Particularly sharp falls are projected in many European economies this year, reflecting strong cross-border linkages between economies and the strong importance of tourism exports in some, as well as in many commodity-producing economies where external demand has declined significantly. Although the decline in global output this year is projected to be considerably greater than during the global financial crisis, the fall in world trade in 2020 as a whole is broadly comparable to that seen in 2009. In part, this reflects the relative concentration of the current crisis in service sectors, where trade intensity is lower than in manufacturing ones with extensive global value-chains, and the lower import intensity of consumer spending relative to fixed investment. Aggregate trade intensity has also stabilised since the global financial crisis. Global trade has risen only marginally faster than global output in recent years, whereas it was rising at more than twice the pace of output in the early 2000s.

Either of the two scenarios set out above are seen as potential developments over the next 18 months, but a wide range of other outcomes remains possible. More protracted lockdowns than currently assumed, particularly in some sectors such as travel and tourism, may be required to ensure that the number of new cases and deaths remains low. This would be likely to further deepen the hit to output this year. Additional, though more muted, infection waves could also occur through 2021, potentially necessitating additional containment measures and checking the pace of any recovery that year. On the upside, the current easing of containment measures in many countries could proceed more smoothly and quickly than assumed, with confidence recovering quickly, or an effective treatment could be found within a relatively short time period. Either of these would improve the prospects for a sustained recovery in output and incomes.

Figure 1.11. World trade is projected to remain very weak, with challenges for tourism-dependent economies



Note: November 2019 projections are from the November 2019 OECD Economic Outlook; Global trade in goods plus services in Panel A. In Panel B, "CSS" refers to Caribbean small states, "MENA" refers to Middle East and North Africa, "LIC" refers to Low-income countries, as defined by the World Bank.
Source: OECD Economic Outlook 107 database; OECD Economic Outlook 106 database; World Bank World Development Indicators database; and OECD calculations.

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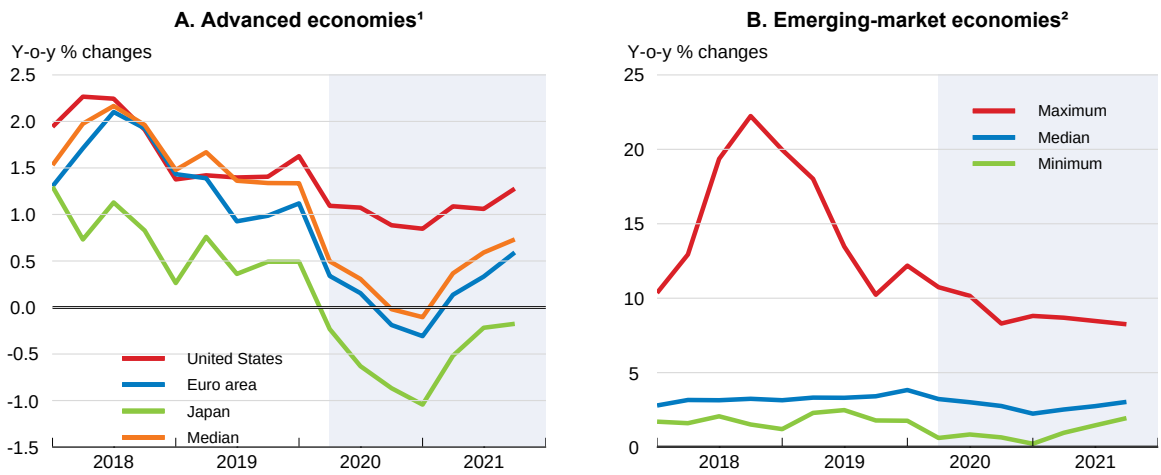
Inflation is expected to remain low

In advanced economies, annual consumer price inflation rates have fallen in early 2020, halving in many economies from end-2019 to April-May, due to lower energy prices and despite some increase in food prices (Figure 1.12, Panel A). However, uncertainty about inflation measurement has increased given that many services have not been provided due to strict containment measures and many individual prices have been extrapolated by statistical offices (Bureau of Labor Statistics, 2020; Eurostat, 2020). Measures of inflation compensation derived from financial market indicators, in particular bond yield differentials, have declined significantly.

In the two scenarios, advanced economies' consumer price inflation in 2020 and 2021 is projected to remain low and below 2019 levels (Figure 1.12, Panel A). In the euro area and Japan, temporary deflation is expected, in contrast to the United States, where inflation is projected to remain more resilient. In line with the developments seen in the global financial crisis, these projections reflect reduced pressures on wages due to high unemployment and weak consumer demand.[4] The annual inflation rates in most emerging-market economies are expected to decline gradually over next 18 months, reflecting a dissipation of inflationary shocks from exchange rate depreciations, and higher food and administrative prices, as well as weak economic activity (Figure 1.12, Panel B).

Figure 1.12. Inflation is expected to remain low

Double-hit scenario



1. Advanced economies include OECD countries except Chile, Colombia, Hungary, Mexico, Poland and Turkey.
2. Emerging-market economies include Brazil, Chile, China, Colombia, Costa Rica, Hungary, India, Indonesia, Mexico, Poland, Russia, South Africa and Turkey.
Source: OECD Economic Outlook 107 database; and OECD calculations.

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These projections are very uncertain, reflecting the specific nature of the ongoing crisis and possible ensuing negative supply-side effects, which are hard to predict at this stage. Containment measures and distancing regulations will impose costs on companies and reduce capacity, with negative implications for

[4] Among large advanced economies, the decline in inflation rates in 2009 and 2010 was driven by services, with the duration of this effect varying among countries.

their profits. Thus, companies may attempt to raise prices to compensate for losses. The risk of such price-setting behaviour is higher in the double-hit scenario, especially with increased bankruptcies, and thus reduced competition and supply of some goods and services. These tendencies would be strengthened if there were persistent disruptions to international trade or new trade barriers (see below). However, it is uncertain if such supply-side effects would suffice to offset downward pressures from spare capacity in many sectors of the economy.

There is also an upside risk to inflation related to oil prices. Oil prices have collapsed in early 2020 due to the slump in demand, despite sizeable supply reductions by the largest oil producers. With oil prices at very low levels, reaching an agreement to cut supply significantly further could lead to a faster and larger rise in oil prices than assumed in the single-hit scenario; the discrepancy between higher oil prices driven by supply restraints and the assumed constant oil price in the double-hit scenario, despite weaker demand, would be even more marked (Annex 1.A).

The large recession may leave multiple scars and there are risks it could last for longer

Five years or more of income growth could be lost in many countries by the end of 2021

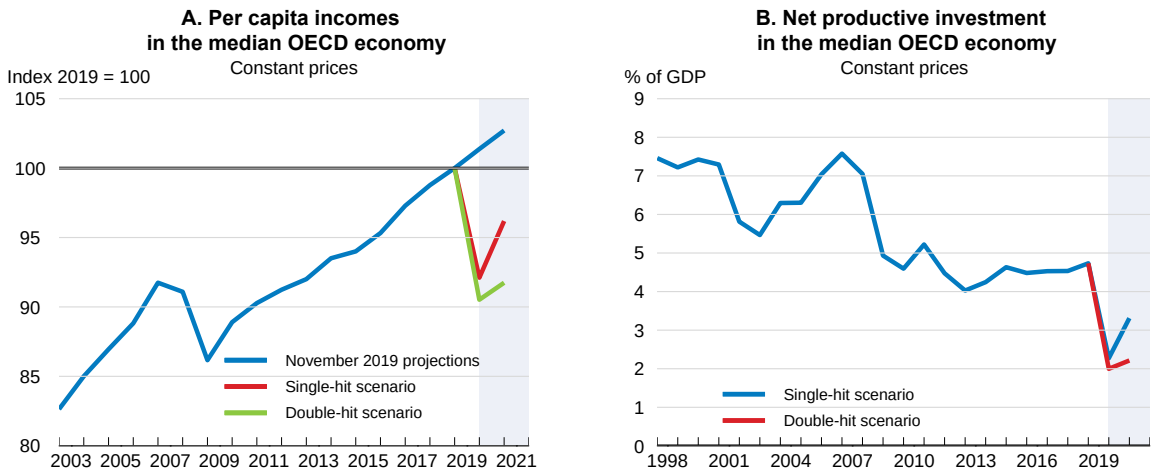
The disruption resulting from the pandemic is likely to leave long-lasting scars in many economies. Living standards have been reduced significantly, unemployment is being pushed well above pre-crisis levels, raising the risk of many people becoming trapped in longer unemployment spells, and investment is collapsing. The direct impact on people's livelihoods is particularly severe among the most vulnerable groups in society (Chapter 2, Issue Note 4). Many of the service sectors hardest hit by the pandemic are relatively employment-intensive, with many workers on low pay or non-standard contracts and in occupations where teleworking is more difficult (OECD, 2020f; Dingel and Neiman, 2020; Yasenov, 2020). Enforced shutdowns, reopening at lower levels of capacity, and changing consumer preferences and behaviour may mean that many businesses are no longer viable, with permanent job losses.

- In the median OECD economy, real per capita income is projected to decline by 9½ per cent in 2020 in the double-hit scenario (Figure 1.13, Panel A), with substantial declines in all economies. Even with some recovery in 2021, real per capita income is only at the level of 2013 in the typical economy, and over 10½ per cent lower than anticipated in projections prior to the pandemic. In the single-hit scenario, the income declines are smaller, but still leave real per capita incomes in 2021 at their lowest level since 2016.[5]
- Unemployment in the median OECD economy this year is projected to be at the highest level for twenty-five years, and ease only slowly in 2021. The scarring effects from job losses are likely to be felt particularly by younger workers and lower-skilled workers, with attendant risks of many people becoming trapped in joblessness for an extended period.
- The impact of the pandemic is set to weaken net investment further. Even prior to the outbreak, net productive investment (business plus government) in the median OECD economy was weak, averaging 4½ per cent of GDP over 2015-19, some 2¼ percentage points below the net investment rate in the decade prior to the global financial crisis. Substantial further declines are projected in 2020-21 (Figure 1.13, Panel B). This further raises the risks of weak output growth becoming entrenched.

[5] Real income per person (2015 PPPs) in the median OECD economy in 2021 is respectively USD 1700 (3¾ per cent) and USD 3500 (8¼ per cent) lower than in 2019 in the single-hit and double-hit scenarios.

The scars in labour and product markets, the need for some reallocation of workers and capital across sectors in the aftermath of the pandemic, and the significant adverse impact of the crisis on living standards emphasise the urgent need for renewed and well-targeted structural policy reforms in all economies. Governments are using a broad mix of labour market policies and corporate support schemes to protect the incomes of workers and businesses through the shutdown. Policy responses will need to remain flexible and agile for some time given differences in the pace at which various containment measures are being relaxed, and the possibility of renewed virus outbreaks. Activity in some sectors, such as aviation and tourism may be significantly lower for some time to come. Consumer preferences could also change permanently, accentuating the digital transition towards greater use of e-commerce and the digital delivery of services.

Figure 1.13. The pandemic will leave long-lasting legacies



Note: November 2019 projections are from the November 2019 OECD Economic Outlook. Net investment is gross investment less depreciation. Productive investment is total investment excluding housing investment.
Source: OECD Economic Outlook 107 database; OECD Economic Outlook 106 database; and OECD calculations.

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A key challenge will be to find ways of identifying and supporting viable jobs and companies in the near term whilst allowing sufficient flexibility for necessary resource reallocation to occur across sectors to minimise long-term scarring and restore productivity growth:

- Short-time work schemes are effective in preserving existing jobs, but may be less efficient in facilitating post-crisis adjustment across sectors. Gradually raising the financial contributions from employers' in these schemes could prove one way of identifying businesses who expect to remain viable for an extended period (OECD, 2020e; Chapter 2, Issue Note 5). In countries in which generous unemployment benefits are being used to support incomes, the challenge will be to find ways of restoring pre-crisis job matches that become viable again once containment measures are ended and activity starts to recover. This could involve financial incentives for firms to undertake only temporary layoffs or rehire former employees.
- More broadly, active labour market programmes and enhanced vocational education and training are needed to create opportunities for all, facilitate possible job reallocation after the removal of containment measures, and prevent the erosion of human capital. Enhanced childcare provision and improved efficiency and targeting of tax and transfer policies also need to be an integral part

of well-designed policy packages to enhance participation and make the labour market more inclusive.

- Government support for companies through wage subsidies, tax deferrals and guarantees will also need to be phased out gradually as containment measures are eased to ensure that unviable firms are not supported for an extended period (OECD, 2020f; Chapter 2, Issue Note 2). One option is to convert such deferrals into public equity stakes, although care should be taken to ensure this does not distort competition and that there are transparent and clearly defined conditional exit strategies for such investments (OECD, 2020g). Reforms to streamline insolvency procedures may also be needed in some countries to minimise barriers to corporate restructuring and spur productivity-enhancing capital reallocation (Adalet McGowan et al., 2017).

- In the medium term, reforms to spur business dynamism, addressing infrastructure shortages, and reducing policy uncertainty about the longer-term challenges from climate change, digitalisation and globalisation, would also strengthen incentives for businesses to invest and improve the prospects for sustainable gains in living standards.
- It will also be important to balance the need for resilience with the potential reduction in efficiency that could result from policy measures designed to induce businesses to restructure their supply chains and reduce inputs from efficient but distant providers (see below).

Government efforts to support the economic recovery also need to incorporate the necessary actions required to limit the long-term threat from climate change. Existing environmental standards should not be rolled back during the recovery and sector-specific financial support measures should be conditional on environmental improvements where possible, such as stronger environmental commitments and performance in pollution-intensive sectors that are particularly affected by the crisis (OECD, 2020h). The potential for an extended period of substantially lower fossil-fuel prices than previously expected further raises the urgent need to introduce effective incentives for firms to invest in energy-efficient technologies.

Company insolvencies and financial market risks

A sharp drop in revenues of firms due to the shutdown of many sectors increases the risk of widespread defaults. Financial distress will depend on the extent and duration of disruptions stemming from containment measures and on consumers' behaviour after the lifting of restrictions. Companies in some sectors, like hospitality, travel and tourism, where the lockdown will last longer and significant changes need to be undertaken in health and sanitary safety measures, may not recuperate revenues. The impact will also depend on companies' ability to reduce fixed operating expenses to minimise operating losses, and to obtain new financing, as well as the size of their cash buffers and debt payments. Businesses with larger cash holdings, lower debt and easier access to alternative sources of external financing will fare better, as will companies in countries with government support schemes. Stylised simulations show that effective government interventions, including debt moratoriums, and tax and wage bill relief, could more than halve the share of firms facing liquidity shortfalls after a year if there is a protracted recovery (OECD, 2020f; Chapter 2, Issue Note 2).

While comprehensive firm-level data on the financial position of non-financial corporations are not available, the evidence for selected large companies suggests that the negative impact of the collapse in output will be very large, but heterogeneous across countries and sectors (OECD, 2020f; Chapter 2, Issue Note 2; Banerjee et al., 2020). This reflects, among other things, small cash buffers. Among listed and large unlisted companies in selected OECD and emerging-market economies, as of end-2019, 25% of firms did not have enough cash to cover all debt obligations falling due in 2020 (Banerjee et al., 2020). Moreover, the adjustment of operating expenses is usually much slower than of revenues and this time may be even more difficult given new costs arising from hygiene and safety measures. New external

financing could help in the short term, but access can get more difficult over time and covering losses with new debt will increase already high leverage, creating problems for the future. Over recent months, companies have already drawn upon bank credit lines but these may become scarce due to deteriorating creditworthiness of borrowers and banks' reduced willingness and capacity to extend loans.[6] Access to debt finance might also be reduced, particularly for riskier companies. Global issuance of high-yielding corporate bonds and leveraged loans, and debt issuance in Europe have already fallen drastically (IMF, 2020).

The likely rise in corporate insolvencies and bankruptcies may lead to negative feedback effects in corporate bond markets. Spreads for high-yield corporate bonds in the United States and the euro area have already increased to high levels (see above). Further sell-offs are to be expected, with downgrades due to deteriorating profits of businesses, especially for corporate bonds just above non-investment grade (Çelik et al., 2020). If bonds issued by these companies are downgraded to non-investment grades, regulations will prompt forced sales by some institutional investors, weighing negatively on corporate bond prices. Already, a record amount of debt has fallen to junk status in recent months. To limit stress of high-yield corporate borrowers, the authorities could increase targeted lending to such debtors while limiting credit risks, and also consider retractable preferred equity investment in viable companies (Chapter 2, Issue Note 3).

Corporate financial difficulties could also add to challenges for banks, especially in Europe where companies depend on bank borrowing to a larger extent than in the United States and where banks in some countries were in a weak position entering the pandemic crisis. While banks are not at the origin of the ongoing crisis, and have higher capital and liquidity buffers than prior to the global financial crisis in 2008, they are likely to be affected negatively by increased corporate and household defaults as well as weak demand for new loans and very low interest rates. Higher perceived risks of banks are already evident. In some advanced economies, bank equity prices have declined by more than overall equity price indices and bank credit default swap spreads have widened rapidly. Price-to-book ratios have also declined significantly. In many European countries, they have at least halved from their 2017-18 average levels and reached historical lows. Weaker bank earnings and rising non-performing loans, in the low-growth and low-interest environment, could constrain banks' willingness to lend in spite of monetary policy support. Bank lending standards have already been tightened substantially in the United States, but only a little in the euro area so far.

The challenges facing emerging-market economies and developing countries

Emerging-market economies and developing countries remain highly vulnerable to the global recession and the coronavirus pandemic.

- High indebtedness is a major vulnerability in many emerging-market economies and developing countries. Since the global financial crisis, debt has increased in relation to GDP in many countries (especially in China, Chile and Turkey for non-financial corporations; and in Argentina, Brazil, China, Chile and South Africa for governments). At present, it is very high by emerging-market economy standards in Brazil, Chile and China (Figure 1.14, Panel A). Moreover, in Argentina, Chile, Mexico and Turkey, a significant share of loans and debt securities by non-bank borrowers is denominated in foreign currencies, primarily in US dollars (Figure 1.14, Panel B). Foreign ownership of corporate bonds issued in local currencies has also increased in some emerging-market economies and developing countries (Çelik et al., 2019). This poses significant challenges when domestic currencies depreciate, foreign currency revenues drop and international investors are not willing to lend. Foreign currency reserves are generally not large (Figure 1.14,

[6] The use of credit lines by companies in some advanced economies has almost doubled since the last quarter of 2019.

Panel C) and several countries have already had to intervene to defend their currencies.[7] In some countries, the banking sector has experienced difficulties due to a high share of non-performing loans, including in India and Turkey.

- To a varying degree, emerging-market economies and developing countries are heavily dependent on demand from advanced economies and China, via global value chains, with tourism and remittances being an important source of income.[8] Commodity producers with limited financial buffers and low-income countries with underdeveloped domestic financial markets and a small domestic investor base are likely to be particularly affected.
- Many emerging-market economies and developing countries have weaker automatic fiscal stabilisers, given less developed social safety nets and higher informality, and limited room for macroeconomic policy easing due to high public debt and inflationary pressures created by domestic currency depreciation. The compounded nature of the COVID-19 shock through reduced foreign demand, lower tax revenues and increased public spending requirements elevates the risk of twin-deficit crises in these countries.

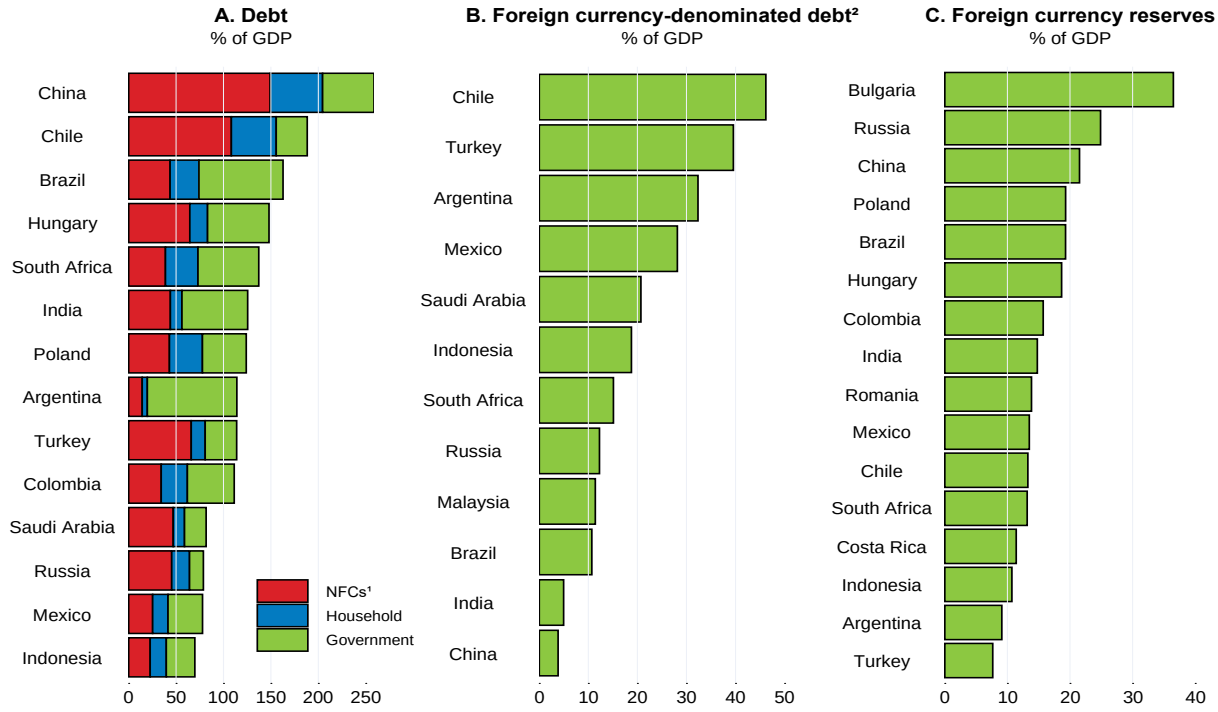
Risk perceptions with respect to emerging-market economies and developing countries deteriorated as the COVID-19 crisis developed but have improved somewhat in a few cases in recent weeks. Exchange rates depreciated significantly, in Brazil, Colombia, Mexico, Russia and South Africa by as much as 20-30%, which was generally less than at the peak of the global financial crisis, but have partially recuperated the losses (Figure 1.15). US-dollar-denominated government bond yield spreads over US Treasuries increased to their previous peak in 2009 (especially in Latin America) and the number of sovereigns with extremely high bond spreads exceed 2009 levels (Figure 1.5). Widespread portfolio capital outflows from emerging-market economies and developing countries were at a record high, nearing USD 100 billion over a period of less than two months (IIF, 2020), dwarfing the scale of capital outflows during the global financial crisis. Many sovereign bonds have been downgraded or put on a negative outlook, including those issued by Colombia, Mexico and South Africa.

To ease financial pressures, G20 nations agreed to freeze bilateral government loan repayments for 76 low-income countries and called on private creditors to follow suit. In addition, the IMF approved SDR 17 billion (USD 24 billion) of emergency financing for 66 countries in the form of new concessionary lending (more than 100 countries have applied for such loans), and cancelled six months of debt payments due from 25 countries. While these measures offer a temporary respite, high debt level challenges remain and will intensify if the pandemic persists or returns and the global economy remains in recession. Moreover, debt relief from private creditors could be harder to obtain, as recent negotiations over Argentinian sovereign debt demonstrate. Thus, tensions will likely rise, with negative spillovers for some advanced economies and China, which has become an important creditor for many emerging-market economies and developing countries (Horn et al., 2019).

[7] Brazil, Chile, Colombia, India, Indonesia, Mexico, Russia and Turkey have already intervened to strengthen their currencies in response to the crisis.

[8] Global remittances to low and middle-income countries could decline by nearly 20% in 2020 (World Bank, 2020a).

Figure 1.14. Vulnerabilities in emerging-market economies



Note: Data as of end-2019 (except Turkey in Panel C where data refer to 2020Q1).
1. Non-financial corporations (NFCs).
2. Sum of cross-border and locally issued loans and debt securities denominated in US dollars, euros and Japanese yen borrowed by the domestic non-bank sector.
Source: OECD Economic Outlook 107 database; Bank for International Settlements; International Monetary Fund; and OECD calculations.

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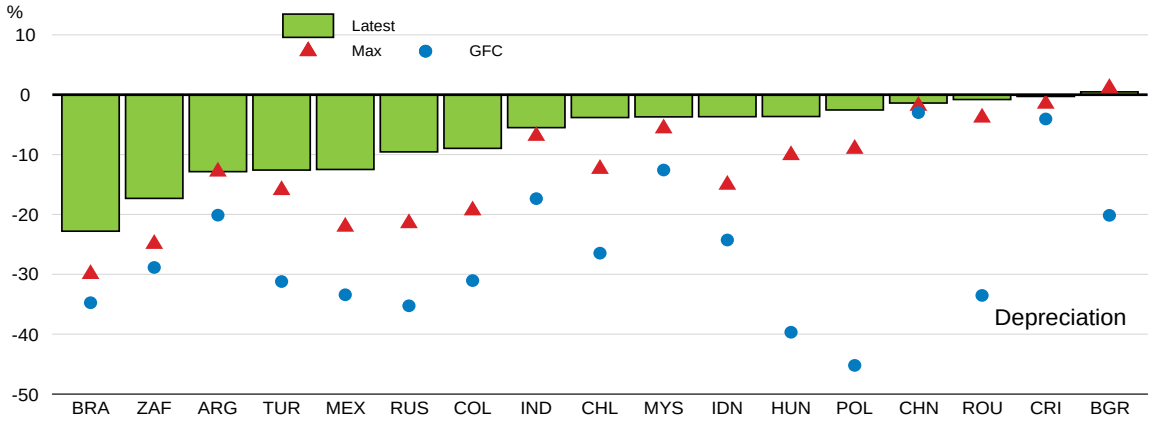
Figure 1.15. Domestic currencies have weakened considerably against the US dollar

Percent change in the US dollar exchange rate



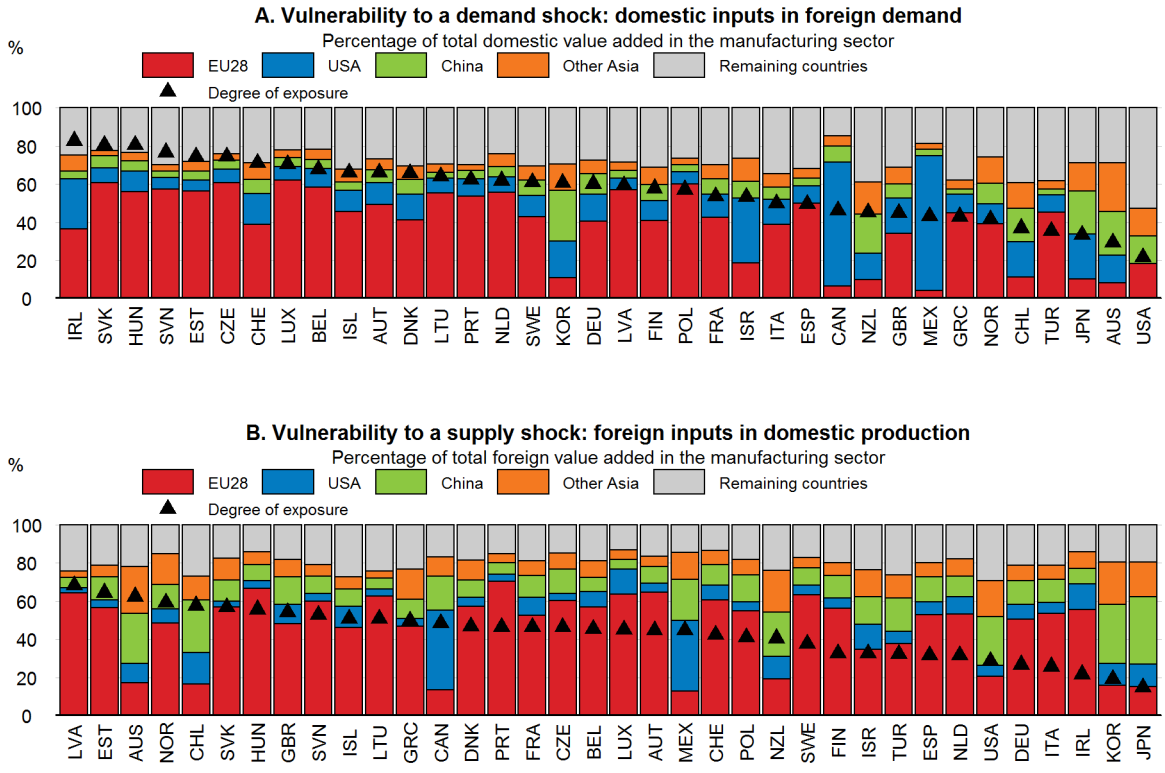
Note: Based on a 10-day average of daily observations. "Latest" refers to the change between end-2019 and the latest available data up to 4 June. "Max" refers to the maximum change since end-2019. "GFC" refers to the maximum change during the global financial crisis (between mid-2008 and mid-2009).
Source: Refinitiv; and OECD calculations.

StatLink https://doi.org/10.1787/888934140297

The consequences of the contraction in international trade

The crisis has demonstrated the vulnerability of domestic production to sourcing inputs from distant locations. Prompted by efficiency considerations, companies have outsourced production to exploit comparative advantages in performing different tasks, building up long and complex global value chains (GVCs). The latest data available show that foreign value added in production exceeded 50% in most economies and areas, with relatively strong backward linkages in manufacturing, especially in cars and electronics, and more forward linkages in services, such as banking and business services (Figure 1.16, Panel A). Due to regulatory harmonisation within the European Single Market and the common currency area, the exposure to cross-border European suppliers is particularly large for some small European countries. To the extent that such supplies are more secure than from other more distant foreign suppliers, the overall foreign exposure overstates the vulnerability of these smaller European countries to foreign supply disruption (Figure 1.16, Panel B).

Figure 1.16. Vulnerability to trade shocks is high in some OECD countries



Note: The degree of exposure to a supply shock is computed as a share of foreign value added in gross output of the manufacturing sector, while the degree of exposure to a demand shock is computed as a share of domestic value added in foreign final demand. Other Asia includes Japan, Korea, India and ASEAN countries.
Source: OECD TiVA dataset 2018; and OECD calculations.

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While the increasing interconnectedness of economies is a source of resilience, it can also have the opposite effect, with an amplification of contagion throughout the system due to greater specialisation among partners or a reduced substitutability between products and suppliers (Jouanjean et al., 2017). Shocks propagate along the supply chain with different intensities according to the position of each industry in the network[9] and require adequate buffers to prevent potential contagion. International diversification of foreign direct investment, suppliers and markets can support resilience if shocks (economic crisis or natural disasters) are not correlated or are country-specific, but is less effective when a simultaneous set of shocks happens globally, as in a pandemic (Acemoglu et al., 2012).

The disruption to GVCs from localised supply problems was demonstrated in 2011, when the tsunami in Japan and flooding in Thailand resulted in shortages of difficult-to-substitute components further down the GVCs for the transport equipment sector and hard-drives, respectively.[10] The shutdown in China early this year reportedly caused significant disruption for companies that relied on components supplied by China, notably those sourced from Hubei province, which is an important hub for domestic and international value chains. In Europe, where GVCs are particularly important, the lifting of shutdown measures at a different speed may result in input shortages.

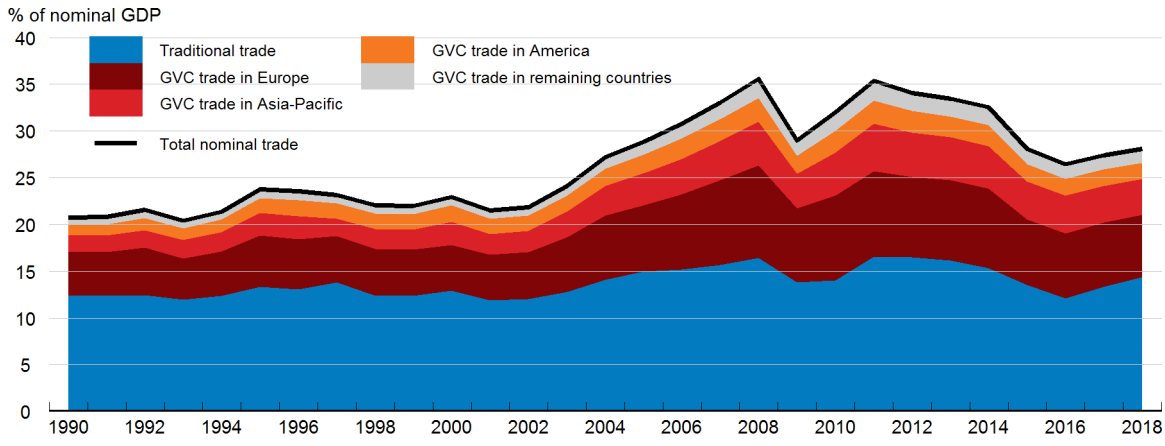
If GVCs were to be shortened to reduce input sourcing risks and enhance resilience, some of the efficiency gains associated with expanding chains in recent decades would be foregone. Firms would lose some of the benefits from economies of scale and specialisation. At the same time, access to foreign markets might be compromised if the activities of affiliates abroad were to be downsized and the proximity to the strategic knowledge assets (e.g. research centres, universities, competitors) needed for fostering R&D and innovation investments could be reduced. Moreover, reshoring activities would weaken opportunities for productivity spillovers that stem from sharing technology and adopting more effective organisational and managerial practices (Criscuolo and Timmis, 2017).

Overall, empirical analysis suggests that increased GVC participation in the past, in both advanced and emerging-market economies, has been associated with significant productivity increases. A 10% increase in the level of imports of intermediates has been estimated to raise labour productivity by 2% and income per capita by 11-14% (Constantinescu et al., 2019). Given the rapid expansion of cross-border trade and the associated increase in world trade intensity since the 1990s (Figure 1.17), the potential cost of diminishing international trade in inputs could be high if supply chains were to shorten. In emerging-market economies and developing countries, the on-shoring of foreign production in advanced economies could reduce the benefits from GVC-associated capital flows and access to international markets, human capital and knowledge.

[9] Upstream participants face greater demand volatility than downstream ones and therefore are at a higher risk of output reduction amplified by the adjustment of inventories to new expected levels of demand (the so-called “bullwhip effect”). Similarly, a shortage of available intermediate inputs following a supply shock sets off a “domino effect” propagating across all downstream industries, which intensifies with the length of linkages.

[10] The estimated cost of the Japanese catastrophe for the transport equipment sector amounted to USD 139 billion (in value added), with Japan accounting for about 40% of the losses, the United States for 25%, China for 8%, the European Union for 8%, and Canada for 7% (World Bank, 2020b). At the time of the floods in Bangkok, 45% of the world manufacturing production of computer hard disks was located around the city, with an estimated loss of 30% of the world supply of hard drives that year (OECD, 2014).

Figure 1.17. Cross-border trade has helped to raise world trade intensity



Note: Traditional trade includes products entirely produced in one country and consumed in another one. Global value chain (GVC) trade includes all backward and forward linkages of each country in the region. America includes the United States, Canada, Mexico, Chile, Argentina, Brazil, Costa Rica and Colombia. Asia-Pacific includes China, India, Indonesia, Japan, South Korea, Hong Kong (China), Chinese Taipei, Singapore, Malaysia, the Philippines, Thailand, Vietnam, Australia and New Zealand.
Source: OECD Economic Outlook 107 database; UNCTAD-Eora database; and OECD calculations.

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The challenges from the shortening of GVCs come on top of other threats to international trade. Increased use of trade-restraining measures is damping the cross-border flow of goods and services. Notwithstanding measures to arrest an escalation of trade tensions, the sharp increase in bilateral tariffs on trade between the United States and China over the past two years has depressed the bilateral flow of imports and exports between the two economies. Furthermore, even the fulfilment of the US-China Phase I trade deal, which commits China in the coming two years to purchase a cumulative additional USD 200 billion of American goods and services in 2020-21 (on top of a baseline of USD 180 billion imports in 2017), may be undermined by weaker demand due to the pandemic. More generally, uncertainty about trade policy and the erosion of rules-based procedures to settle trade disputes have weighed on trade, international investment and economic growth in recent years. In addition, the prolonged uncertainty about Brexit has also resulted in considerable trade volatility as well as large exchange rate fluctuations.

Policy requirements

In the short term, and possibly until a treatment or vaccine becomes available, the key policy challenge is to foster the recovery while some containment measures remain in place and some sectors undergo structural transformations. This requires a mix of policies that aid the reallocation of resources across sectors and support the incomes of workers and firms left in a precarious position. Extensive fiscal, monetary and financial policy responses will help underpin household incomes, employment and firms' cash-flow, and minimise longer-lasting scars for the economy. However, policies will need to be flexible and agile given differences in the duration of shutdowns and recoveries across sectors, the possibility of further shutdowns and financial instability, uncertainty about structural changes to demand and supply in the economy, and the risk that the associated economic costs turn out to be long lasting. Policy design should also reflect the risk that the current crisis may aggravate many pre-existing policy challenges related to low growth, inequality and high public debt.

Greater global co-operation and co-ordination via the G20, the European Union and other groups is essential to track the spread of the pandemic, pool financial resources and share information on effective containment and treatment interventions. Acting together creates confidence and positive spillovers that will be more effective for all countries than if they acted alone.

Health policy priorities to reduce vulnerability

The immediate policy priority in most countries is to ensure adequate hospital capacity to deal with the current and potential future virus outbreaks; increase the supply of PPE for health professionals and the population at large; and to build up the infrastructure for an effective test, track and treat strategy.

- The capacity of ICUs in the hospital sector, which came under intense pressure in dealing with the current outbreak in some countries and regions, needs to be enhanced. This has already be done in some of the countries most affected by the virus, and further expansion is being planned. Even so, building up additional capacity in these and other countries in coming months remains important so as to enable the hospital system to deal with a potential resurgence of infections without unduly delaying necessary interventions for other patients. In many emerging-market economies and developing countries, ICU capacity is limited or negligible. In the longer term, most countries will need to review their healthcare system and make it better prepared to address future pandemics.
- Large-scale testing capacity is a prerequisite for fully relaxing containment measures. Even if cross-country comparable data are lacking on this issue, available country-specific data suggest that by end-April the number of tests relative to the size of the population differed considerably from one country to another (OECD, 2020c). However, some countries where testing has been comparatively low have ambitious targets for increased testing in the near term. Higher test capacity needs to be accompanied by an enhanced ability to trace individuals that have been in contact with an identified carrier; using new technology for this purpose will require addressing privacy concerns.
- Increased availability of PPE for health professionals and the population at large should help to reduce the transmission of the virus. After shortages in many countries in the early stages of the pandemic, and an initial tendency to ban exports (OECD, 2020i), increased international trade in PPE and sharply stepped-up domestic production of such equipment has eased shortages. Further expansion to meet government targets, and ensuring that an adequate precautionary stock is maintained, will help to ease containment policies.

Countries have a mutual interest in maintaining open trade in medical products. Prior to the crisis, global exports and imports of such products amounted to 5% of world trade, with countries specialising in exports of particular products (WTO, 2020). For example, China, the United States and Germany accounted for 40% of all exports of PPE, and Singapore, the United States, the Netherlands and China provided more than half of all exports of respirators and ventilators. In some countries, supply shortages have prompted costly import-substituting domestic production that may prove difficult to wind down after the outbreak subsides. By interfering with global value chains, export curbs may also have weighed on production in the countries taking such measures. There are few signs that the export restrictions will be lifted in the near term.

Global co-operation and co-ordination are essential to tackle the severe health challenges all countries are facing. Joint measures and multilateral efforts are needed to ensure efficient production of medical products, and to ensure that affordable vaccines and treatments are widely and swiftly made available wherever needed. A far-reaching, shared, transparent information base and knowledge of best practices is also critical to support sound national policy responses and assess risks.

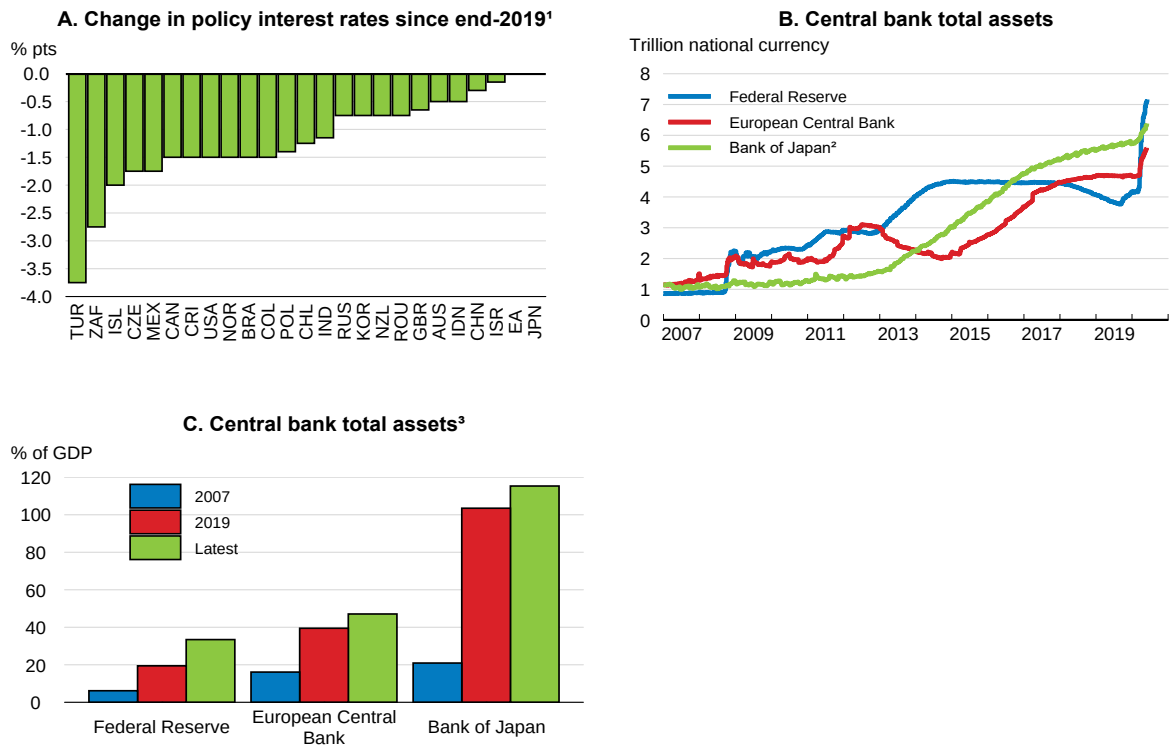
Monetary and financial policies

The crisis response and its effectiveness

Monetary and financial policies have been eased considerably in response to the pandemic and the ensuing financial market panic.

- Many central banks have cut policy interest rates and committed to buy large amounts of sovereign and private assets to keep longer-term interest rates low (Figure 1.18; Table 1.2). In several economies, numerous measures to support liquidity in the financial sector and to boost bank lending to businesses and households have been implemented (Table 1.2).
- To help ease pressures in global US dollar funding, six key central banks enhanced existing swap lines by extending the maturity, increasing the frequency and lowering the price of operations.[11] The US Federal Reserve has also expanded currency swap lines with central banks in Australia, Brazil, Mexico, South Korea and elsewhere.[12]

Figure 1.18. The global monetary policy stance has been eased substantially



1. Between end-2019 and June 4.
2. Hundred trillion yen.
3. The latest observation is expressed as percent of GDP in 2019.
Source: OECD Economic Outlook 107 database; Refinitiv; and OECD calculations.

StatLink https://doi.org/10.1787/888934140354

[11] The Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, the Federal Reserve and the Swiss National Bank.

[12] The ECB has set up euro swap lines with Bulgaria and Croatia. The Bank of Japan has set up a bilateral swap line with the Bank of Thailand in local currencies.

Table 1.2. Key monetary policy measures in the main economic areas

	Asset purchases	Lending support measures	Liquidity support measures
Bank of Canada	- Government of Canada Bond Purchase Program (CAD 55 bn) to address strains in the government bond market - Corporate Bond Purchase Program (CAD 10 bn) to support the liquidity and proper functioning of the corporate debt market - Commercial Paper Purchase Program (CAD 3 bn) to support the flow of credit to the economy - Canada Mortgage Bond Purchase Program (CAD 6 bn) to support mortgage lending	- Bankers' Acceptance Purchase Facility (CAD 39 bn) to support financing of SMEs - Provincial Money Market Purchase Program (CAD 6 bn) and Provincial Bond Purchase Program (CAD 2 bn) to support a liquid and well-functioning market for short-term provincial borrowing	- Increase the frequency of Term Repo operations to ensure continuous functioning of financial markets - Temporarily increase bidding limit and ranges in the Government of Canada securities auction to support the liquidity and well-functioning of financial markets - Contingent Term Repo Facility to provide liquidity against government securities as collateral - Broaden collateral eligibility to include mortgages for the Standing Term Liquidity Facility
Bank of England	- UK government and corporate bonds (GBP 200 bn) to ease domestic financial conditions	- Covid Corporate Financing Facility (GBP 325 bn) to provide funding to non-financial businesses - Term Funding Scheme (GBP 100 bn) with additional incentives for SMEs to improve the transmission of the reduction in Bank Rate to the real economy - Temporary extension to Ways and Means facility to provide a short-term source of additional liquidity to the government if needed to smooth its cash-flow	- Extension of the Contingent Term Repo Facility to provide additional flexibility in the Bank's provision of liquidity insurance - Increase the Asset Purchase Facility gilt lending limits to mitigate operational frictions and support the Debt Management Office's normal channels
Bank of Japan	- Government bills and bonds to stabilise the yield curve at a low level - Commercial paper and corporate bonds (JPY 20 tr) to ensure smooth financing of firms - Exchange-traded funds (JPY 12 tr) and Japan real estate investment trusts (JPY 0.2 tr) to lower risk premia of asset prices	- Accept corporate, SMEs and household debt as collateral under the Special Funds-Supplying Operations to Facilitate Financing programme (JPY 55 tr) to firmly support financial institutions to fulfil their function for a wide range of private sectors	- Provide ample yen liquidity using market operations with long maturities against pooled collateral - Provide ample US dollar liquidity - Temporarily increase the number of issues of Japanese government securities (JGSs) offered in the Securities Lending Facility and offers of sales of JGSs with repurchase agreements to stabilise the repo market
ECB	- Pandemic Emergency Purchase Programme (EUR 1.35 tr – public and private securities) to lower borrowing costs and increase lending - Temporary addition to the Asset Purchases Programme (EUR 120 bn) to ease financial conditions over the yield curve	- Pandemic Emergency Longer-Term Refinancing Operations - Temporarily broadened the collateral base, reduced valuation haircuts and removed credit quality requirements of collateral to support access to credit for firms and households	- Additional longer-term refinancing operations to provide immediate liquidity support to banks
Federal Reserve	- Treasury securities, agency mortgage-backed securities and agency commercial mortgage-backed securities to smooth functioning of credit markets	- Primary and Secondary Market Corporate Credit Facilities and Term Asset-Backed Securities Loan Facility (USD 850 bn) to support credit to employers - Municipal Liquidity Facility (USD 500 bn) to help state and local governments manage cash-flow - Main Street Lending Program (USD 600 bn) to support lending to small and medium-sized businesses - Exchange Stabilization Fund (USD 300 bn) to support credit to consumers, and businesses - Accept loans made under the Small Business Administration's Paycheck Protection Program as eligible collateral to support access to credit for small businesses - Modified the Liquidity Coverage Ratio rule to support participation in the Money Market Mutual Fund Liquidity Facility and the Paycheck Protection Program Liquidity Facility to support credit to households and businesses	- Expand overnight and term repurchase agreement operations to support effective policy implementation and the smooth functioning of short-term US dollar funding markets

Source: Bank of Canada; Bank of England; Bank of Japan; European Central Bank; and Federal Reserves.

Table 1.3. Key financial policy measures in the main economic areas

	AUS	CAN	FRA	DEU	ITA	JPN	KOR	GBR	USA
Counter-cyclical capital buffer lowered			X	X				X	
Systemic risk or domestic capital buffer lowered		X							
Use of other capital buffers	X	X	X	X	X	X	X	X	X
Use of liquidity buffers	X	X	X	X	X	X	X	X	X
Less stringent loan provisioning	X	X	X	X	X	X	X	X	X

1. "Loan provisioning" includes temporary changes in the definition and treatment of non-performing loans during the COVID-19 crisis.
2. "Use of liquidity buffers" includes temporary easing in the calculation of the Liquidity Coverage Ratio and the Net Stable Funding Ratio.
Source: European Central Bank; and national supervisory authorities.

- In order to support bank lending, the authorities in many advanced economies and large emerging-market economies also eased bank prudential regulations (Table 1.3). Actions included lowering counter-cyclical or systemic risk capital buffers and reserve requirements; allowing banks to operate below required capital and liquidity levels; delaying implementation of new regulatory measures, stress testing and regulatory reporting; easing collateral eligibility rules; and providing more flexibility with the treatment of non-performing loans. Prudential supervisors in many countries have also encouraged banks to help borrowers affected by the pandemic to restructure loans and grant moratoria on loan repayments to small businesses and individuals. Several governments have provided extensive state-guaranteed loan programmes involving commercial banks.

The swift actions by central banks in the main advanced economies, in particular in the United States, have led to a massive increase in market liquidity, helping to ease stress in financial markets and minimise risks of a systemic financial meltdown triggered by containment measures. While maintaining sufficient liquidity and financial stability is key at this stage of the crisis, the implemented measures should also eventually support the supply of credit in the economy and the economic recovery.[13] However, already low interest rates before the pandemic and high debt in the corporate sector could reduce the effectiveness of monetary policy compared with normal times.

Policy requirements in the two scenarios

The current numerous monetary and financial policy programmes offer sufficient flexibility to deal with a return of the pandemic, associated disruptions to the economy, and heightened financial market volatility. In this event, many of these programmes could and should be scaled up or extended, particularly liquidity and lending support. A further expansion of US dollar funding swap lines, potentially including more emerging-market economies, may also be necessary. However, in the case of a prolonged global recession, it will be more challenging to minimise financial stability risks. Capital buffers of financial institutions are likely to be used up, bankruptcies will be much larger and there may be limits if support is needed for an increasing number of sectors of the economy. Depending on the size of these effects, formal government support to banks may be needed. Any further easing of prudential regulation should be done

[13] Bank credit to non-financial corporations have already increased substantially in the euro area and the United States, reflecting firms' strong demand for cash, but consumer loans have declined.

conditional on transparent disclosures of financial exposures and restrictions on dividend payments and bonuses.

If the pandemic is over and the associated lockdowns are phased out gradually, as assumed in the single-hit scenario, some scaling back of liquidity support can be envisaged in advanced economies.[14] Nevertheless, monetary policy should remain very accommodative, with low interest rates and lending support measures, to ensure access to low-cost financing for the private and public sectors. This stance is appropriate given the projected weak recovery and likely subdued inflation in the medium term. Inflation is expected to remain low in the absence of protracted supply cuts (including oil), reflecting subdued demand, though this may raise challenges for the future (see below). But if inflation were to increase substantially and persistently, monetary policy could consider removing some of the stimulus.

Responding to upward pressure on bond yields

If government bond yields – which affect the pricing of credit in other segments of financial markets – were to increase, central banks have several ways to react. Policy interest rates could be cut if there is still scope, forward guidance on interest rates could be provided, and asset purchases could be increased. To maintain low yields at longer maturities, central banks could also opt for yield curve control, similar to that pursued by the Bank of Japan.[15] This framework helps to control the price of longer-term government bonds directly, in contrast to standard quantitative easing which focusses on the quantity of assets purchased.

The ECB could still face challenges with controlling bond yields in individual member states as government bond purchases continue to reflect ECB capital shares. However, the flexibility of asset purchases over time, across asset classes and among jurisdictions introduced through the Pandemic Emergency Purchase Programme will help the ECB ensure that monetary policy is transmitted in a more symmetric way across the euro area.[16]

Mounting policy challenges

Prolonged monetary policy support, although necessary in the context of the most severe global downturn since the Great Depression, will aggravate many of the pre-crisis policy challenges.

- The transmission of monetary policy could become impaired by weaker bank profitability and balance sheets. A deep and prolonged recession, as in the double-hit scenario, and a long period of low growth, low or negative interest rates, and flat yield curves, will all affect banks negatively. In some European countries, these would aggravate pre-crisis challenges with high non-performing loans and long-standing structural problems of low cost efficiency, limited revenue diversification and bank overcapacity (ECB, 2018). The likely heightened levels of non-performing loans will require strict prudential supervision, effective and fast insolvency procedures and the development of distressed debt markets, or the establishment of a “bad bank”.

[14] The Bank of Canada has already announced the scaling-back of some of its market operations as short-term funding conditions improved considerably.

[15] Japan has been targeting 10-year government bond yields for almost four years already. A similar suggestion has been made in the United States, although focusing on shorter maturities (Bernanke, 2016; Brainard, 2019).

[16] In an extreme case of persistent and high spreads threatening financial and economic – and thus price – stability, the ECB could use unlimited interventions under the Outright Monetary Transactions scheme if a member country applies for a European Stability Mechanism programme.

- The needed easing of prudential regulation during the crisis will have to be reversed gradually to rebuild capital and liquidity buffers. A sound financial system will be key for future monetary policy transmission and resilience during the next downturn.
- The prolonged period of low growth and interest rates will also continue to challenge the solvency of pension funds and insurance companies. Low discount rates increase the present value of the liabilities of defined-benefit pension funds and life insurance companies (OECD, 2015; OECD, 2016). The adverse effects of low interest rates for pension funds are greater for funds that already had unfunded liabilities before the crisis. Funding gaps of pension funds have risen since the global financial crisis, and were already at around 30% of total assets in the United Kingdom and the United States in the mid-2010s, aggravating challenges stemming from gains in longevity (IMF, 2016).
- The expected crisis-related increase in government debt and central bank assets may lead to perceptions of eroded central bank independence, with potential negative implications for inflation expectations. To minimise such risks, fiscal and monetary authorities should jointly communicate their commitment to central bank independence, and ensure a clear separation of their respective mandates, with that of monetary policy remaining focused on the inflation objective. Central banks' total assets have already risen to record highs, especially in the United States where the nominal value of total assets has expanded by nearly 70% since early March (Figure 1.18, Panels B and C). They will increase further with continued purchases of assets and a higher take-up of programmes to support lending and liquidity. Moreover, some central bank measures to support non-financial corporates and local authorities have distributional consequences, leading to perceptions that monetary authorities are encroaching on tasks reserved for elected governments. Higher credit risks taken may lead to capital losses in the future and increased political criticism and interference.[17]

Fiscal policy: Emergency measures and future priorities

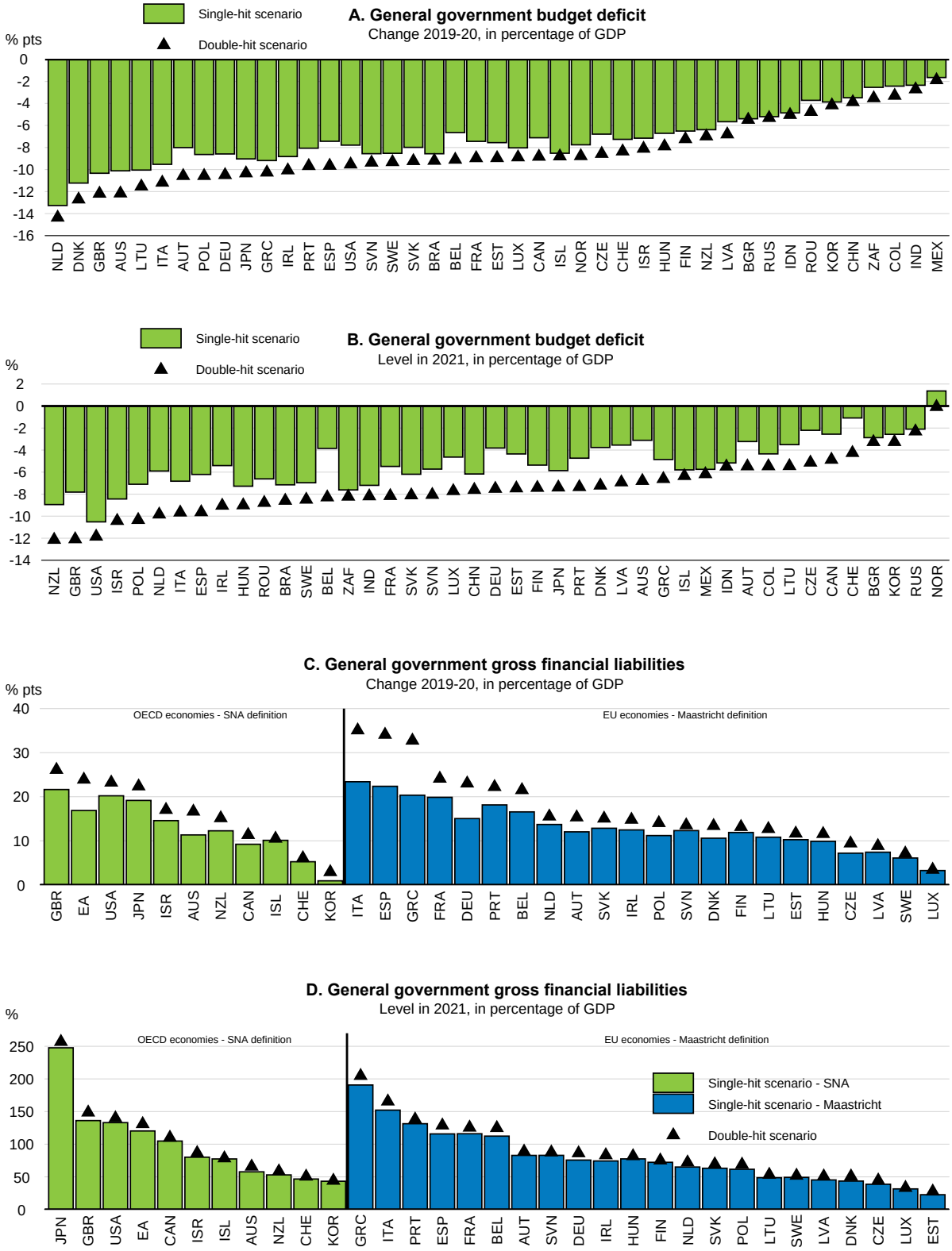
The crisis response and short-term policy requirements

OECD fiscal balances and public debt are projected to deteriorate dramatically in 2020-21 in both scenarios, reflecting large support measures (Box 1.2) and automatic stabilisers:

- In the double-hit scenario, headline balances are projected to deteriorate dramatically in 2020 (Figure 1.19, Panel A), by about 9% of GDP in the median OECD economy, i.e. around three times as much as in 2008-09. In 2020, in several countries, the deficits are expected to be particularly high, including in the United States, the United Kingdom, Japan and Italy. The relatively small improvement in fiscal positions in 2021 in the double-hit scenario reflects some carry-over of discretionary measures, as well as the workings of automatic stabilisers. In the single-hit scenario, fiscal deficits are somewhat lower than in the double-hit scenario (Figure 1.19, Panel B), by around 2% of GDP in 2021 in the median OECD country. This is because the costs of discretionary programmes are lower, and mostly concentrated in 2020, and automatic stabilisation effects are weaker.

[17] In principle, central banks could function with negative equity (Buiter, 2008). Some central banks have mechanisms to prevent capital losses by deferring future transfers to governments or are officially indemnified by fiscal authorities against potential losses.

Figure 1.19. Fiscal positions are set to deteriorate drastically



Source: OECD Economic Outlook 107 database.

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- The projections for the public debt ratio reflect the deterioration in headline fiscal balances, as well as lower GDP (the denominator of the ratio) and additional off-budget support measures that affect governments' financial assets (e.g. loans, recapitalisations of firms and equity acquisitions). In the double-hit scenario, the median debt ratio increases by almost 15% of GDP in 2020, compared with the increase of 10% of GDP in 2009. Debt continues to rise in 2021, reaching 87% of GDP (Figure 1.19, Panels C and D). In Japan, Greece, Italy, Portugal and Spain, debt ratios peak at extremely high levels. For these countries, the projected 2021 debt levels are around 20-35% of GDP higher than they were in 2019. In the single-hit scenario, the debt-to-GDP ratio rises by slightly less.

Box 1.2. Government responses to the pandemic crisis

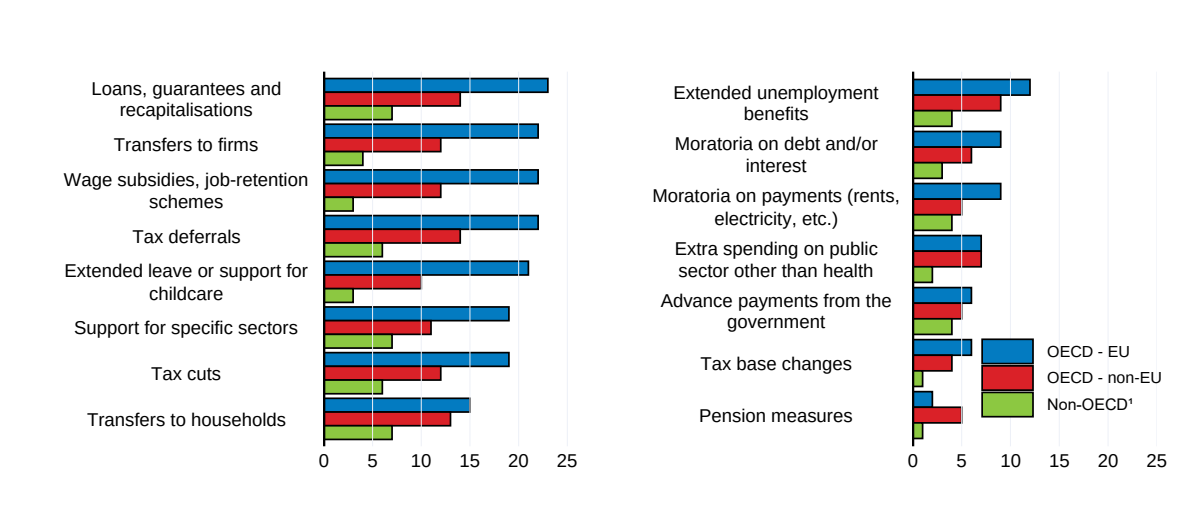
The main measures taken by governments in response to the pandemic crisis involved (Figure 1.20):

- On the spending side, besides extra spending on healthcare, the most common measures with a direct impact on budget balances aim to help preserve incomes and employment via short-time work schemes and wage subsidies to laid-off workers and the self-employed; extended unemployment benefits (including benefits for the partially unemployed), sick leave and other types of leave (e.g. via expanding the eligibility criteria or duration); and by providing additional support for child or other care needs. Governments are also providing additional transfers to households, the self-employed and firms, and topping up spending on public services other than health (e.g. active labour market policies or education). In most countries, spending measures account for the bulk of the direct budget changes.
- On the revenue side, many countries have reduced taxes or social security contributions temporarily, either directly or by relaxing rules determining the tax base for firms (e.g. by extending loss carry-back or depreciation allowances). In addition, many countries have deferred taxes and social security contributions for individuals and firms and some have brought forward payments of their liabilities to households and firms, such as tax credits, to support liquidity. A few countries have made withdrawal of pensions easier (e.g. early withdrawal, lower thresholds) or made borrowing from them possible (e.g. the United States, Australia). While deferred payments will not impact government balances directly according to national accounting rules, they will increase public borrowing requirements temporarily.
- Furthermore, most governments announced extensive off-budget support in the form of loans and recapitalisations (provided either directly by the government or state-dependent development banks and special support funds), and loan guarantees.[1] In fact, in many economies, the largest part of the stimulus is accounted for by large state loan guarantees (around 15% of GDP in the United Kingdom and over 25% of GDP in Germany).
- To support the hardest-hit sectors (e.g. tourism, hospitality, aviation, culture, exporters or automotive), several countries have implemented a wide variety of measures, some consisting of programmes applied to the whole economy with specific amounts singled out for certain sectors, and others having more tailored forms. For example, Italy extended its social safety net to seasonal workers in tourism and entertainment and granted a special one-off compensation to those of them who lost their jobs due to the pandemic. Several countries set up special loan and/or guarantee programmes for the hardest-hit industries, for example Finland, Norway and Sweden (aviation) and Canada (agricultural and food processing businesses). Other governments temporarily waived or reduced certain payments for specific industries (e.g. ground lease rents for airports in Canada; taxes on hospitality in the United Kingdom and Iceland; temporarily lower VAT for restaurants in Germany). Countries also provided direct

subsidies, e.g. to agricultural businesses, restaurants or cultural providers, including in Finland, the Netherlands and Portugal. Support to tourism included subsidised holiday vouchers for employees (e.g. in the Czech Republic) and marketing campaigns to promote the country as a tourist destination (e.g. in Iceland). Some countries combine the pandemic response measures with other long-term goals, such as environmental transition. For instance, in France, a planned increase in consumer bonus and car scrapping subsidies aim not only to help the hard-hit automotive sector, but also to lower pollution and promote the usage of electric vehicles. Besides specific industries, almost all countries have set up specific programmes (providing grants, loans and/or guarantees) targeting SMEs (OECD, 2020j; OECD Covid tracker).

Figure 1.20. Frequency of government measures in response to the pandemic crisis

Number of countries adopting indicated measures



Note: Non-OECD countries include Brazil, China, Costa Rica, India, Indonesia, Russia and South Africa.
Source: OECD Covid tracker; IMF Covid tracker; and national sources.

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1. Governments in some countries have also encouraged private companies to grant moratoria on payments, e.g. of debt service and interest payments, rents or utility bills. These measures are not included in public finances though.

Notwithstanding the sharp projected deterioration in public finances, they could turn out even worse than expected due to large uncertainties about the economic impact of the crisis, the use of support measures, and the realisation of contingent liabilities. Public expenditure related to automatic stabilisers and special government support programmes may be much higher than projected if the economy turns out weaker, the programmes are extended or the take-up of short-time work schemes and income support measures is larger than expected. There may also be strong political pressures to maintain generous support programmes after the pandemic is over. Moreover, extra fiscal costs could arise from realising losses on contingent liabilities – such as current state loan guarantees.[18]

[18] Under the assumption that the whole amount of state guarantees, announced as of 13 May, were fully allocated and bore a 90% guarantee on the value of the loan, a default on 10% of the guaranteed loans would generate fiscal costs of around 0.8% of 2019 GDP in Spain, 1.2% of 2019 GDP in France, and 2.7% of 2019 GDP in Italy.

The effectiveness of fiscal stimulus and the need for specific measures will change over time, increasing trade-offs between the need to support the economy, the need to foster the reallocation of resources to sectors with better longer-term prospects, and fiscal costs.

- During the lockdown and the early stages of the exit, the main aim of fiscal support is to limit the economic damage from the pandemic and the associated containment measures. Fiscal multipliers are likely to be near zero during a full shutdown, as government programmes may not boost private consumption and investment much given administrative restrictions on economic activity. Instead, the main goal of the policy response is to preserve jobs and household incomes, and protect firms from bankruptcies. Minimising administrative delays in activating these programmes is of utmost importance if they are to be as effective as possible. As the containment restrictions are lifted, fiscal multipliers will likely strengthen, helping to stimulate demand and reduce hysteresis effects.
- Firms facing transitory drops in demand and supply-chain disruptions require liquidity support that can be addressed by grants, credits or loan guarantees. These measures can prevent firms' liquidity problems from turning into solvency issues. However, they may turn out to be costly and ineffective if support is provided to non-viable firms. To minimise the risks, the programmes should be evaluated over time and adjusted if needed, sufficient loss provisions that are reflected directly in budget balances should be made, and repayment incentives should be introduced (e.g. partial guarantees).

If a second outbreak of the pandemic materialises (as in the double-hit scenario) or economic growth and employment turn out even weaker than in the two scenarios, the scope and duration of support policies may need to be extended, while becoming more targeted. New support measures for firms might include equity-like risk sharing instruments, such as cash-against-tax surcharge schemes (Boot et al., 2020), to provide firms with the required liquidity but without increasing their leverage. These kind of interventions are especially important for SMEs, which face more challenges in raising funding in a slowdown, and have positive repercussions on the stability of the banking system. Flexibility and agility will be crucial. Decisions to intervene will need to take into account the expected marginal costs and benefits, the strength of the automatic stabilisers and available fiscal space. The latter aspect will essentially depend on the reaction of monetary policy.

Several new EU initiatives have been proposed to support the most affected countries and address divergences arising from the pandemic shock (Box 1.3). These proposals are very welcome; their effectiveness will depend on their ultimate design, size and use, which are still under discussion. If needed, additional solutions could be considered (Boone and Pereira, 2020).

Box 1.3. EU programmes to address the economic consequences of the pandemic

EU and euro area bodies have come up with several welcome initiatives to help member states, especially those hard-hit by the pandemic and with less fiscal space, to finance fiscal measures in response to the crisis at a relatively low cost, limiting the implications for national debt burdens.

- A European Stability Mechanism (ESM) Pandemic Crisis Support – a low conditionality credit line that euro area countries can access to receive loans of up to 2% of their 2019 GDP and at a maturity of up to ten years. This is a welcome breakthrough but the programme on its own may not be enough. The size of the credit line is modest in the current context, and the lack of automaticity of support (requiring a new eligibility assessment by the Commission, and subsequent approval by the ESM Board of Governors) may deter countries from applying.

- The European Investment Bank's pan-European guarantee fund of EUR 25 billion to facilitate up to EUR 200 billion of loans primarily to SMEs is welcome but may not provide sufficient help to high-risk small and very small enterprises.
- A temporary Support to mitigate Unemployment Risk in an Emergency (SURE) programme to fight unemployment in the European Union has been set up. This is an appropriate initiative that could contribute to smoothing economic activity of member countries by helping finance national short-time work schemes. However, the programme is based entirely on loans and does not address challenges with limited fiscal space, beyond offering low rates. Moreover, its size is limited to deal with large union-wide shocks (EUR 100 billion, or 0.7% of the EU27 2019 GDP). In the future, introducing a permanent common fiscal capacity to smooth negative employment shocks without overburdening national budgets and debt ratios could be considered (Claveres and Stráský, 2018).
- The European Commission has proposed to reinforce the EU budget with an exceptional and temporary EUR 750 billion recovery plan, comprising around EUR 450 billion of grants, EUR 50 billion of guarantees and EUR 250 billion of loans. The exact distribution of funds across member states and programmes is not yet known and may be subject to some form of conditionality. The bulk of the resources (around 80%) should support public investment, notably for the green and digital transformation, and key structural reforms in countries and regions where the crisis impact and resilience needs are the greatest. The plan would also include other tools, such as a solvency support instrument to provide urgent support to sound companies hit by the crisis, and a healthcare programme to strengthen health security and to prepare for future crises. The recovery plan is to be funded mainly via one-off borrowing in financial markets on behalf of the European Union. Repayments (to take place between 2028 and 2058) will depend on the possible creation of new taxes at the EU level to address climate change and fair taxation in a globalised world (such as digital taxes). Disbursements of funds are expected in early 2021.

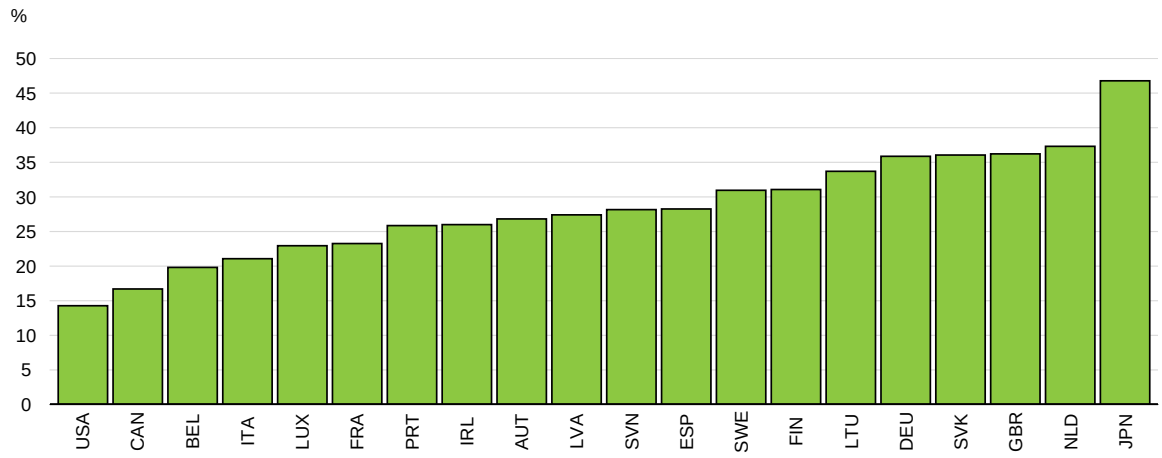
Options for dealing with high public debt in the longer term

The projected high level of budget deficits and public debt in 2021 will exacerbate pre-crisis public finance challenges and may increase fiscal vulnerabilities in many OECD economies. A one-off shock to the level of debt may not on its own endanger debt sustainability when economies recover: what matters is the dynamics of the debt that must be controlled. In the aftermath of the crisis, an excessively quick fiscal consolidation could stifle growth excessively, as some OECD countries experienced after the global financial crisis. But a lack of focus on ensuring debt sustainability once the recovery has firmed would also be an important risk.

Low debt servicing costs will reduce financing pressures but will not prevent debt accumulation on their own. Since the global financial crisis, monetary policy stances have been very accommodative with the aim of bringing inflation back up towards its target. The resulting low interest rates and increased central bank holdings of government bonds (Figure 1.21) have reduced government debt servicing costs significantly. This accommodative monetary policy stance will likely have to be maintained for several years given the time it may take for production capacity, income, employment and inflation to recover after the pandemic. If needed to attain central banks' mandates, more accommodative monetary conditions can be ensured via additional net purchases of government bonds, yield curve control and strengthened forward guidance, with varying implications for government debt servicing costs over a long period.

Figure 1.21. Several central banks have become dominant holders of domestic government bonds

Per cent of total outstanding marketable bonds



Note: For the United States, marketable treasury securities, excluding treasury bills, held by the Federal Reserve as a share of outstanding marketable treasury securities, excluding treasury bills, at market value. For the United Kingdom, Asset Purchase Facility holdings as a share of outstanding (conventional) gilts, at market value. For Canada, government bonds, excluding treasury bills, held by the Bank of Canada as a share of outstanding Canadian government bonds. For Japan, government bonds held by the Bank of Japan as a share of outstanding treasury securities, excluding treasury discount bills and including FILP bonds, at nominal value. For the euro area countries, cumulative net purchases of government bonds in the Eurosystem Public Sector Purchase Programme and the Pandemic Emergency Purchase Programme at book value as of end-May 2020 as a share of outstanding general government bonds at face value as of end-April 2020. For Sweden, the purchases of government bonds (355.4 billion SEK as of 15 May 2020) as a share of outstanding government bonds as of end-April 2020, at face value.
Source: OECD Economic Outlook 107 database; Board of Governors of the Federal Reserve System; US Department of the Treasury, Bureau of Fiscal Services; Bank of Canada; Bank of Japan; Ministry of Finance Japan; Sveriges Riksbank; Swedish central government debt statistics; UK Debt Management Office; Bank of England; European Central Bank; and OECD calculations.

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Higher economic growth and inflation would lower the debt-to-GDP ratio on their own. Towards this end, governments should implement ambitious structural reforms to boost potential growth (OECD, 2019b). However, the experience from the past decade suggests that achieving higher growth quickly through structural reforms may be challenging without monetary and fiscal support. Similarly, raising inflation to target and keeping it there may require persistent monetary and fiscal support.

Reviewing all government expenditure will be necessary to ensure adequate spending on high-priority areas and people, and enhance growth without threatening debt sustainability. First, healthcare spending will need to be boosted in many countries, both to increase the capacity to respond to future pandemics and to address structural increases in healthcare costs (Lorenzoni et al., 2019).[19] Second, after a decade of low public capital spending, it is necessary to increase high-quality public investment in sectors related to digitalisation, education and climate change mitigation. Market failures in these sectors cause private under-investment, preventing large positive externalities and the attainment of important social objectives. A reduction in public investment should be avoided, in contrast to the past large consolidation episodes (Blöchliger et al., 2012). Third, governments will have to address rising costs related to population ageing

[19] Across the OECD countries, health spending is projected to increase on average by 1.4% of GDP between 2015 and 2030 (Lorenzoni et al., 2019).

(OECD, 2019c).[20] Finally, there may be political pressure to sustain more generous social benefits and protection of workers' income to better accommodate future downturns. Starting a review of public expenditures early is important because reallocation of spending towards priority areas is usually gradual.

At the same time, once economies have recovered from the crisis, higher government revenues will also be required to support debt sustainability in some countries, while enhancing the progressivity of the tax system and supporting climate change mitigation. This calls for a comprehensive review of countries' tax mix, taking into account growth considerations, as well as inclusiveness and sustainability, which may have a greater weight in fiscal policy-making after the crisis. Revisiting the taxation of capital (from capital income to capital gains and property taxation) should be considered in the light of growth objectives, making the system more progressive where necessary. Consumption taxes were largely used in the aftermath of the global financial crisis and room for manoeuvre may be limited but should be explored where possible. Whilst care should be taken over the distributional effects, the use of carbon taxes should be increased, and fossil fuel subsidies reduced. This would not only address serious market failures, helping to bring about urgent changes in the economy to mitigate climate change (Marten and van Dender, 2019; OECD, 2020h), but would also provide revenues to compensate households and small businesses hardest hit by the measure. Addressing the tax challenges from the digitalisation of the economy and ensuring that multinational enterprises pay a minimum tax would strengthen revenue raising capacity and could be seen to contribute to fair burden sharing. Policy co-ordination in this area will make reforms more effective, including by fighting tax avoidance and ensuring that tax disputes do not turn into trade wars, which would harm recovery even further (OECD, 2020k).

The adoption of well-designed fiscal rules, and a reformed budget process that strengthens incentives for prudent long-term planning and provides better information, would help shape budget decisions. Establishing, or reinforcing, independent fiscal councils and creating specific budget tools like the long-term fiscal target established with the Enzi-Whitehouse budget reform legislation in the United States could be helpful in this respect.[21] In the European Union, reforms of fiscal rules will be needed to ensure that a counter-cyclical fiscal stance is permissible in downturns while preserving fiscal sustainability. This may involve replacing the current multiplicity of numerical rules with an expenditure rule, possibly anchored to a debt-ratio target (Claeys et al., 2016; Darvas et al., 2018; OECD, 2018).

Policy priorities in emerging-market economies

Several large emerging-market economies have already eased their monetary policy stance and announced fiscal measures (Figures 1.18 and 1.19). Further policy responses will depend on the duration and magnitude of financial market stress, the impact of lower oil prices, negative international demand spillovers, domestic disruptions due to the pandemic, the extent to which vulnerabilities have built up before the crisis, and the policy space available to mitigate the negative shocks.

- Emerging-market economies with a credible macroeconomic policy framework, flexible exchange rate arrangements and manageable exposures to foreign-currency-denominated debt, should continue to accommodate the shock. On the monetary policy side, this would involve further reductions in policy interest rates and looking through any temporary increases in inflation due to one-off depreciations of domestic currencies. However, already low real interest rates may make

[20] Across the OECD, public pension expenditure is projected to increase on average by 0.6% of GDP between 2015 and 2050 (OECD, 2019c).

[21] The Enzi-Whitehouse bill (November 2019) introduces fiscal goals in the US budget resolution, a blueprint for the actual appropriation process defined in the budget, in the form of targets for the ratio of debt held by the public relative to GDP. Debt-increasing legislation will automatically require adjustments, as well as a special legislation process, to reconcile the budget with the targets. Explicit long-term sustainability targets could give policymakers more ownership of those objectives and strengthen their commitment to meet them.

further monetary policy easing difficult in some countries, as additional exchange rate depreciation may fuel inflation and increase financial stability risks related to high foreign currency debt (Figure 1.14). In these cases, reserve requirements can be lowered as a counter-cyclical policy instrument (Cordella et al., 2014). On the fiscal side, the automatic stabilisers should be allowed to operate fully. Some further temporary fiscal stimulus could be considered with little longer-term implications for government debt.

- In contrast, countries with weaker macroeconomic fundamentals may have no choice but to limit macroeconomic policy support, with negative implications for domestic demand. If access to international credit is difficult or very expensive, they should seek extra borrowing from international institutions and negotiate debt payment moratoria or restructuring with international creditors, with the aim of minimising disruptions to growth and maintaining future access to credit markets.[22] On the fiscal side, medium-term fiscal frameworks, possibly supported by fiscal rules or fiscal councils, should encompass all fiscal and quasi-fiscal activities to help strengthen the quality and transparency of macroeconomic policy frameworks.
- Although flexible exchange rate arrangements generally reduce external shocks in emerging-market economies, excessive exchange rate volatility may undermine financial stability.[23] When such risks are high, transparent and temporary interventions may be needed. When considering interventions, their possible limited effectiveness in addressing a persistent shock and limited foreign currency reserves should be taken into account (Basu et al., 2018). In extreme cases of financial crisis, capital outflow restrictions may be inevitable but they should not delay necessary adjustments to address underlying imbalances. In contrast, countries could ease capital inflow restrictions imposed on foreign currency operations by domestic financial institutions, including via reducing foreign-currency reserve requirements (OECD, 2020l).[24]

Policies to avoid forfeiting the benefits of globalisation

Policymakers need to take co-ordinated action to keep trade and investment flowing freely to prevent the mounting threat of a reversal in globalisation. Co-operation to lower trade tensions and to remove tariffs and additional costs on firms and consumers is essential to mitigate the damage to activity and avoid further income losses for households and companies already hit by the crisis. Similarly, governments should refrain from introducing export restrictions on essential goods which could undermine confidence in global markets, create panic-buying and price volatility and harm import-dependent countries (OECD, 2020m).

[22] A debt standstill scheme going beyond the bilateral debt relief agreement of G20 countries is proposed by Bolton et al. (2020). For each participating country, the proposal involves the creation of a central credit facility managed and monitored by a multilateral institution, which collects interest payments to all bilateral and private lenders to use these funds in COVID-19 relief. It is estimated that such a standstill could spare USD 800 billion for emerging-market economies and developing countries, representing close to 5% of their annual GDP.

[23] Domestic financial conditions in emerging-market economies operating with flexible exchange rates seem to be less prone to respond to global financial conditions than those in emerging-market economies with exchange rate pegs (Obstfeld et al., 2017).

[24] Capital inflow regulations have already been eased in Argentina, China and India; and foreign-currency reserve requirements have already been lowered in Indonesia and Turkey (OECD, 2020l).

The current crisis has also put a strain on international supply chains. Their resilience should be stress tested on a regular basis to identify particular weaknesses and ensured by companies and governments through the development of strategic stocks and upstream agreements for the reconversion of assembly lines during critical times. Investment policies should foster the broader adoption of digital infrastructure and transport facilitation to help bridge distances and reduce trade costs along production chains, and resolve disruptions in face-to-face processes. Governments can support businesses in upgrading their industrial strategies through regulatory flexibility that helps to promote innovation and supply diversification, and through the extension of credit support programmes designed to improve the efficiency of logistics. Finally, preserving cross-border trade is particularly important for poorer countries susceptible to food and medical supply shortages. Therefore, co-operative agreements on regional stockpiling and health-emergency assistance in advanced economies should be designed in an inclusive way that also takes into account the needs of the most vulnerable countries. It is particularly important that emerging-market economies and developing countries are not cut off from the global value chains that improve their growth prospects by providing access to international markets, human capital and knowledge.

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Annex 1.A. Policy and other assumptions underlying the projections

The two epidemiological scenarios that serve as a basis for the two economic scenarios are set out in the main text.

In both economic scenarios, the projections assume unchanged exchange rates from those prevailing on 15 May 2020: one US dollar equals JPY 107.1, EUR 0.92 (or equivalently one euro equals USD 1.08) and 7.10 renminbi.

In the double-hit scenario, the price of a barrel of Brent crude oil is assumed to remain constant at USD 30 throughout the projection period. In the single-hit scenario, the oil price is assumed to increase in line with forward market prices to USD 42 in the last quarter of 2021. Non-oil commodity prices are assumed to be constant over the projection period at their average levels from April 2020 in both scenarios.

The projections for the United Kingdom are based on an assumption that a basic free trade agreement for goods with the European Union comes into force from the start of 2021.

The cut-off date for information used in the projections is 4 June 2020.

2 Issues notes on macroeconomic and structural policy issues related to the COVID-19 outbreak

Issue Note 1: Evaluating the impact of COVID-19 containment measures on activity and spending

Introduction

The spread of the COVID-19 virus across countries has prompted many governments to introduce unprecedented measures to contain the pandemic. These have led to many businesses being shut down temporarily and widespread restrictions on travel and mobility.

In a rapidly changing environment, and in the absence of timely hard data measuring the hit to production, it remains extremely difficult to quantify the exact magnitude of the impact of these measures on overall economic activity. An initial benchmark was provided by OECD estimates released in March 2020 soon after many countries began to implement confinement measures (OECD, 2020a). These suggested that the initial direct impact of the shutdowns could be a decline in the level of output of around one-quarter in many countries, with consumers' expenditure potentially falling by around one-third. These estimates were based on illustrative judgements about the potential impact of shutdowns on output in selected sectors and consumption categories and an assumption of common effects across countries. Other estimates have pointed to even larger possible declines in output due to shutdowns in a number of European countries, depending on the type of shutdown measures considered (Dorn et al., 2020a; Prades Illanes and Tello Casas, 2020).

This note extends the OECD benchmark estimates in two different ways. First, it augments the original output estimates by also considering the possible indirect effects of shutdowns on other sectors through supply chains. It also complements the benchmark consumer spending estimates with benchmark estimates of the potential shutdown impact on productive investment. Second, with countries having differed in the type and stringency of confinement measures imposed, the note compares the initial illustrative benchmarks with national estimates and reference assumptions by statistical offices, central banks and research institutes, and information from recently published data. Key additional findings include:

- Indirect effects via input-output linkages could add between 6-8 percentage points to the direct hit to aggregate output based on the sectors affected directly in the initial OECD benchmark estimates. On this basis, direct and indirect effects could result in a total production decline of about one-third in the major advanced economies if containment measures were fully implemented in a similar manner across economies.
- The manufacturing sector, which is more integrated in supply chains than the service sector, is especially affected by such spillovers, with a decline of around 30% in output once input-output linkages are taken into account, in spite of an assumption that few manufacturing industries are shut down directly. Producers of building materials, metals and electrical equipment are among those most affected by supply linkages.
- Overall, indirect linkages are estimated to lower output by about 17% in the industries that are not directly affected by shutdowns.
- Productive investment could also be severely hit, potentially falling by around 20% in selected advanced economies if it were to decline proportionately with output in sectors in which full or

partial shutdowns are assumed. Additional effects could also arise via the impact of weaker demand and higher uncertainty on firms in other sectors.

- Surveys of companies, and monthly activity data for March and April, confirm that services have been hit harder than industry, with the strongest impact occurring in the accommodation and food services, arts and recreation, and retail trade sectors, as assumed in the original benchmark estimates. Survey data also suggest that around 20-30% of companies have shut down at least temporarily during the pandemic in some countries.
- National estimates and scenario analyses of the overall impact of shutdowns are broadly in line with the OECD benchmark estimates in France, Italy, Spain and the United Kingdom, but only 50-60% of the benchmark estimate in Germany. These cross-country differences are broadly consistent with the variation in the relative stringency of containment measures implemented by these economies.
- There is considerable heterogeneity in the sectoral impact of containment measures in the national shutdown estimates, although all include a significant impact in the accommodation and food services sector. The main differences with the OECD benchmark assumptions are in wholesale and retail trade, professional services and real estate services, where the activity impact in several countries is weaker than assumed by the OECD. For Germany, the construction sector is also an important source of differences with the benchmark estimates.
- The sectors in which shutdowns were assumed to occur in the OECD benchmark estimates typically account for between 50% and 75% of the aggregate impact on GDP in the national shutdown estimates. As the overall impact on activity in the national shutdown estimates is similar to the OECD benchmark estimates in several countries, this implies that the impact in the sectors included in the OECD estimates may collectively be smaller than assumed, while the impact in other parts of the economy (including second-round input-output effects) may be larger.

Benchmark estimates of the potential effects of widespread shutdowns

Benchmark output estimates of the direct impact of shutdowns

An initial OECD estimate of the potential direct impact of widespread shutdowns was released in March (OECD, 2020a), soon after most advanced economies had begun to implement stringent containment measures to limit the spread of the COVID-19 virus. The OECD estimates identified the sectors thought most likely to be directly affected by containment measures and in which there was sufficient confidence that shutdowns would occur in many countries. For each of these activities, assumptions were made about the extent to which the activity was likely to be reduced, with output declines ranging from 50% to 100%.

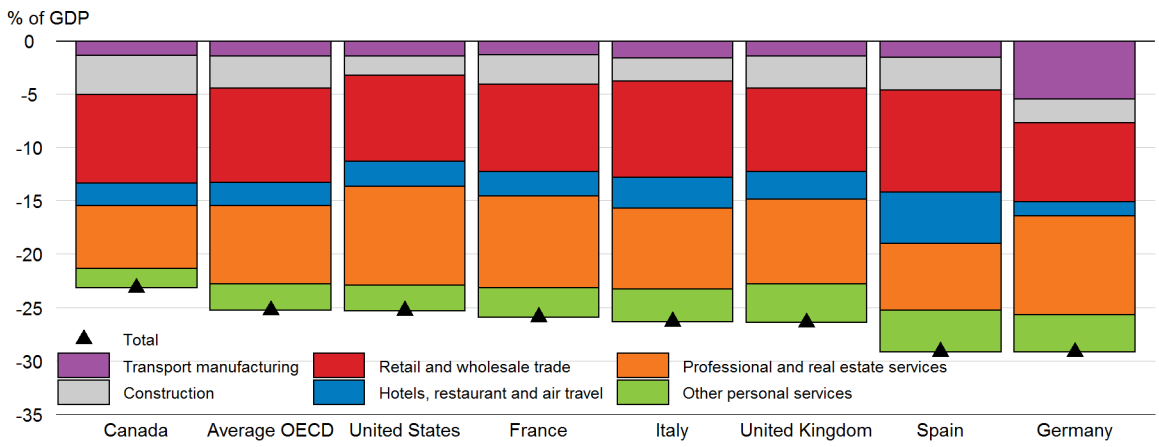
- Within service sectors, activities involving travel, including tourism, and direct contact between consumers and service providers, such as hairdressers or house purchases, would be adversely affected by restrictions on movement and social distancing.

- Most retail shops, restaurants and cinemas would be closed, although takeaway sales and on-line sales would prevent a full cessation of activity in some businesses.
- Non-essential construction work would be affected, either because of containment policies affecting labour availability or because of temporary reductions in investment.
- In the manufacturing sector, typically less affected directly by distancing measures, complete shutdowns were assumed to occur in producers of transport equipment, often because of difficulties in obtaining necessary inputs from suppliers in other countries.

Allowing for only partial shutdowns in some sectors, and assuming a similar extent of shutdowns in all countries, the overall direct initial hit to the level of GDP was estimated to lie between 20% and 30% in many advanced economies (Figure 2.1) and at around 25% in the median OECD economy (OECD, 2020a).[1] These calculations were based on an assumption of an economy-wide shutdown, rather than a shutdown confined to particular regions only. In practice, the actual situation and the extent of shutdowns in particular sectors has varied from one country to the next, reflecting differences in the containment measures adopted.

Figure 2.1. A benchmark estimate of the impact of shutdowns on activity in selected advanced economies

GDP at constant prices



Note: The sectoral data are on an ISIC rev. 4 basis in all countries. Estimates for the average OECD economy are based on an unweighted mean of the sectoral breakdown in all OECD economies. The sectors assumed to be affected directly by shutdowns are manufacturing of transport equipment (ISIC V29-31), construction (VF), wholesale and retail trade (VG), air transport (V51), accommodation and food services (VI), real estate services excluding imputed rent (VL-V68A), professional service activities (VM), arts, entertainment and recreation (VR), and other service activities (VS). The latter two are grouped together as other personal services in the figure. Real estate services excluding imputed rent are assumed to be 40% of total real estate services in countries in which separate data are not available. Full shutdowns are assumed in transport manufacturing, real estate activities excluding rents, and other personal services; declines of one-half are assumed for output in construction and professional service activities; and declines of three-quarters are assumed in all the other output categories directly affected by shutdowns.
Source: OECD 2020a, OECD Annual National Accounts; and OECD calculations.

StatLink https://doi.org/10.1787/888934140449

[1] Detailed information on the output categories included and the illustrative declines in output assumed are provided in the note to Figure 2.1.

Spillover effects on activity in other sectors using input-output tables

Shutdowns in particular sectors have implications for suppliers in other sectors. One approach to estimating such spillovers to the rest of the economy is to use Input-Output tables. These tables show the extent to which output from one sector is used as an input for activity in another sector. From these tables, so-called "Inverse Leontief" matrices can be derived, which can be used to estimate the change in each sector's output resulting from a change of output in the sectors directly affected by the shutdown.

Using the benchmark estimates above of the output reduction in sectors assumed to be directly affected by shutdowns, indirect effects typically add a further 6-8 percentage points to the direct hit on total output (Figure 2.2).[2] Overall, the type of illustrative shutdown assumed in the initial OECD estimates implies a potential loss of total activity ranging between 29% and 37% in some major advanced economies. These estimates do not include any allowance for the potential offsets provided by policy support from governments and central banks in sectors that close only partially. Substantially higher shutdown estimates for a number of European economies were made by Dorn et al. (2020b), using different possible scenarios which generally assumed larger lockdowns across a broader range of sectors. Estimates by Prades Illanes and Tello Casas (2020) point to declines in activity of between 22-28% in Germany, France, Spain and Italy in event of a moderate shutdown, and declines of between 60-70% in event of a severe shutdown (with a full closure of non-essential businesses).

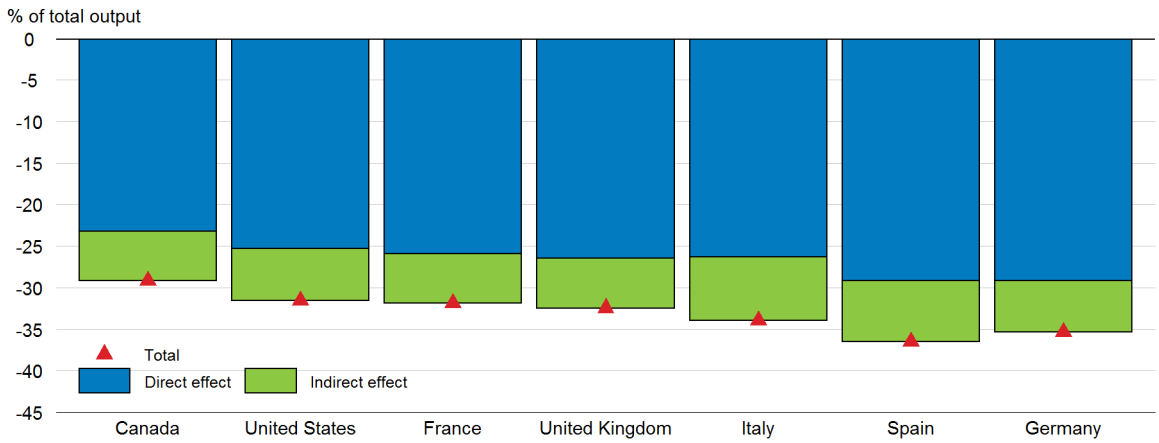
Combining the direct and indirect illustrative benchmark effects, the business services sector, which is the sector most affected by the direct impact of the shutdowns, continues to have the largest hit, with a loss of output of 41% on average in some large advanced economies (Figure 2.3). The manufacturing sector is impacted more severely once supply chain effects are incorporated, with a loss of output of about 30% on average. Building materials, minerals, rubber and plastics, and metal producers are typically among the industries the most affected by spillovers, along with electrical equipment producers. Overall, supply linkages tend to reduce output by about 17% in total in the industries that are indirectly affected by shutdowns, averaged across the countries shown in Figure 2.3.[3]

[2] The OECD input-output tables provide less sectoral detail than used in the evaluation of the economic impact of the shutdown, and so some assumptions have to be made. In particular, the impact of the reduction of activity in the air transportation sector is not shown separately in the Input-Output matrices. For similar reasons, it is assumed that real estate services excluding imputed rent represents 40% of total real estate service output and that professional services represents 60% of the other business services activities in all countries.

[3] One caveat to this analysis is that it assumes that domestic and external demand react the same way to the containment measures. This leads to an underestimate of the economic impact when external demand falls relatively more sharply than domestic demand. Conversely, if the external demand of a sector comes mainly from countries imposing fewer stringent containment measures than elsewhere, the fall of sectoral output may be overstated.

Figure 2.2. A benchmark estimate including spillovers of the overall impact of shutdowns on activity in selected advanced economies

Total output at constant prices



Note: See Figure 2.1 for the list of sectors thought to be affected directly by shutdowns and the assumptions made about the size of the shutdowns in each sector. No additional indirect spillover effects are assumed in the sectors directly affected by shutdowns or in public administration.
Source: OECD Annual National Accounts; OECD STAN database; and OECD calculations.

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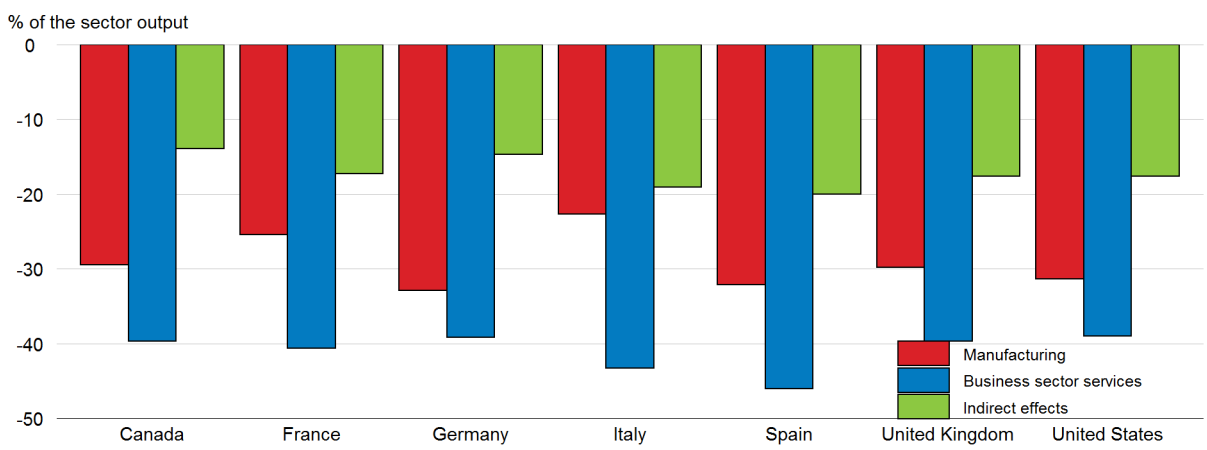
Figure 2.3. The total impact of shutdowns varies across sectors in the benchmark estimates



Note: Indirect effects refer to the combined impact in all the sectors assumed to be unaffected directly by shutdowns. See Figure 2.1 for the list of sectors thought to be affected directly by shutdowns and the assumptions made about the size of the shutdowns in each sector.
Source: OECD Annual National Accounts; OECD STAN database; and OECD calculations.

StatLink https://doi.org/10.1787/888934140487

Benchmark consumer spending estimates of the impact of shutdowns

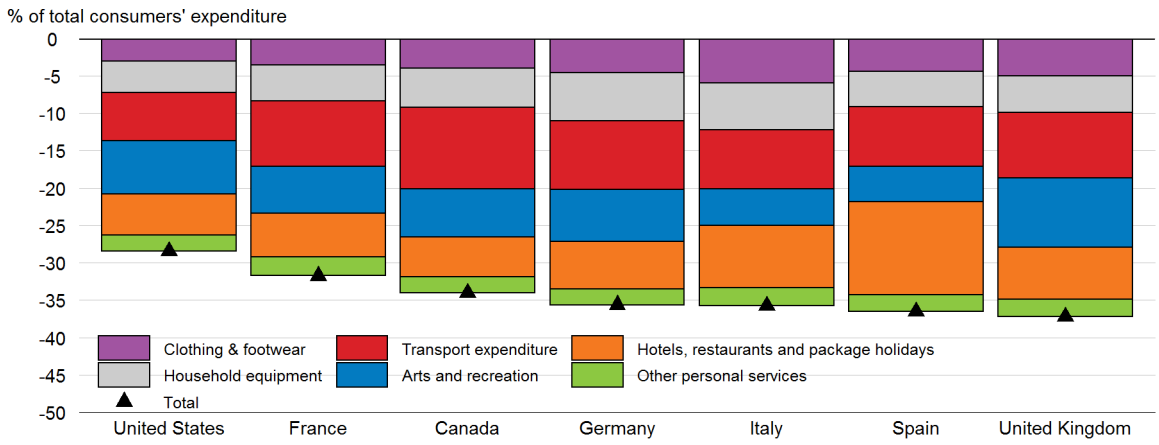
An alternative way of obtaining a benchmark estimate of the potential direct impact of widespread shutdowns on activity is to look at detailed categories of final demand spending. Initial OECD benchmark

estimates (OECD, 2020a) identified the categories of consumer spending most likely to be affected directly by containment measures.

- Shop closures and travel restrictions would result in some categories of spending being cut back completely, such as spending on clothing, footwear, household furnishings and package holidays. Spending involving direct contact between consumers and businesses, such as car purchases and hairdressing, was also likely to be postponed completely.
- Sharp declines were likely in spending on local travel, restaurants, hotels and recreational services.
- Other categories of spending, particularly spending on essential items, were assumed to remain unchanged.

Using illustrative assumptions on the extent of the cutback of affected spending categories and assuming similar reductions in all countries, the overall direct initial hit to the level of consumer spending was estimated to be around one-third in many large advanced economies (Figure 2.4).[4] These calculations are based on an assumption of an economy-wide reduction in spending, rather than a reduction confined to particular regions.

Figure 2.4. Benchmark estimates of the potential impact of shutdowns on private consumption in selected advanced economies



Note: The spending data are based on a COICOP classification in all countries. The categories included are clothing and footwear (COICOP 3); furnishings and household equipment (5); vehicle purchases (7.1); operation of private vehicles (7.2); transport services (7.3); recreation and culture excluding package holidays (9.1-9.5); package holidays (9.6); hotels and restaurants (11); and personal care services (12.1). All expenditure on clothing and footwear, furnishings and household equipment, vehicle purchases, package holidays and personal care services is assumed to stop completely; spending on recreation and culture, and hotels and restaurants is assumed to decline by three-quarters; and spending on transport services and the operation of private vehicles to decline by one-half.

Source: OECD Annual National Accounts; and OECD calculations.

StatLink https://doi.org/10.1787/888934140506

[4] Detailed information on the spending categories included and the illustrative declines in spending assumed are provided in the note to Figure 2.4.

Benchmark estimates of the impact of shutdowns using productive investment

Containment measures are also expected to weigh heavily on firms' capital investment. With falling output and profits, an increasing number of firms face liquidity and solvency pressures. Using firm-level data and similar assumptions for the magnitude of shutdown as above, OECD estimates suggest that 30% of firms could run out of liquidity after two months without policy intervention (Chapter 2, Issue Note 2). This is broadly supported by the pressures on turnover reported in national survey estimates.

- A survey carried out by the EMRG, a group of federations of enterprises and the self-employed in Belgium, reported that 41% of surveyed firms faced cash-flow problems as of mid-April (National Bank of Belgium, 2020). At that time, about 25% of firms operating in the arts, entertainment and recreation sector, and nearly 20% of the businesses operating in the accommodation and food services sector, reported a high risk of bankruptcy. Around two-thirds of firms indicated that investment plans were being postponed, either until later in 2020 or 2021 or indefinitely.
- In Canada, a special business survey by Statistics Canada found that the revenues of about one-third of the businesses surveyed declined by 40% or more during the first quarter of the year in comparison with the same quarter a year earlier (Statistics Canada, 2020).
- In the United Kingdom, 58% of businesses reported that their turnover have decreased according to an ONS business survey for April, with over one-fifth having ceased to trade (ONS, 2020).
- In Ireland, CSO (2020) reported that the turnover of 54% of responding enterprises was significantly lower than normal in April.
- In Portugal, around two-fifths of the firms surveyed in Banco de Portugal (2020a) reported declines in turnover of more than 50%, and almost 50% of respondents stated that they did not have enough liquidity to remain operational for more than two months.
- In Australia, 72% of the companies surveyed by the Australian Bureau of Statistics (2020) estimated that reduced cash-flow would have an adverse impact on their business and 16% of them had revised down their 2020-2021 capital expenditure intentions between December 2019 and March 2020.
- In Spain, a business survey carried out by the Banco de España (2020) reported that 50% of the firms that had experienced a fall in activity expected to suspend planned investments.

Such financial pressures, along with large economic uncertainty and sharply deteriorating business sentiment, are likely to make many firms reconsider or postpone their investment plans. One way to estimate the potential direct impact of the shutdown on productive investment is to assume that the sectors directly affected by the shutdown (see above) are also the first to face financial pressures and reduce their capital expenditures.

On this basis, the initial direct fall in investment could range from 10% in Canada[5] to just under 25% in the United Kingdom (Figure 2.5). This assumes that investment is reduced in the same proportion as output[6] in each sector, and that the reduction in each sector is the same across all the advanced economies shown. This may understate the overall near-term impact of shutdowns on investment, as it does not incorporate the impact of weaker demand and higher uncertainty on firms in the sectors that remain open during shutdowns.

Figure 2.5. Benchmark estimates of the potential impact of shutdowns on productive investment in selected advanced economies

Note: The branches of activity data are on an ISIC rev. 4 basis in all countries. The activities included are manufacturing of transport equipment (ISIC V29-31), construction (VF), wholesale and retail trade (VG), air transport (V51), accommodation and food services (VI), professional service activities (VM), arts, entertainment and recreation (VR), and other service activities (VS). The latter two are grouped together as other personal services in the figure. Total productive investment is defined as the investment in all branches excluding real estate activities. Professional activities are assumed to be 60% of total professional, administrative and support services in countries in which separate data are not available. Air transport investment data are available only in the United States and the United Kingdom. Transport manufacturing investment data are not available for Spain. A full cessation of investment is assumed in transport manufacturing and other personal services; declines of one-half are assumed for investment in construction and professional service activities; and declines of three-quarters are assumed in all the other output categories directly affected by shutdowns.
Source: OECD Annual National Accounts; and OECD calculations.

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[5] The analysis does not include any allowance for the sharp fall in oil prices since the beginning of 2020, which could weigh on mining sector investment. In countries such as Canada and the United States, where mining sector investment represents a sizable part of total investment, this effect could be significant.

[6] The one exception is real estate services investment, which is excluded from the calculations. Activity in this sector includes the imputed rent of owner-occupiers, which is excluded from the estimated output effects of shutdowns. A large proportion of the fixed capital investment recorded as being undertaken in the real estate services sector thus corresponds to the related additions to the owner-occupied housing stock. A limitation of this assumption is that some commercial property investment may also be excluded, underestimating the overall investment impact.

Insights from business surveys and national estimates

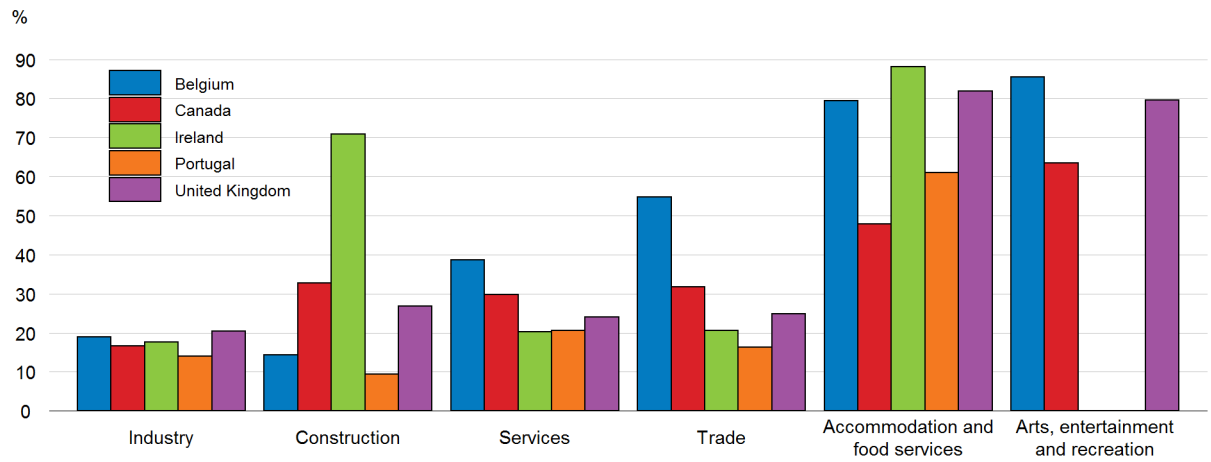
The illustrative benchmark estimates of the impact of shutdowns on activity and spending set out above and in OECD (2020a) implicitly assume that all countries have the same confinement measures. In practice, countries have differed in the type and stringency of the measures adopted. Special business surveys in some countries, typically by statistics offices, and timely estimates of activity by public institutions and major research institutes provide a way of assessing the importance of national differences in containment measures. At the same time, it should be recognised that there are likely to be few clean estimates of the direct impact of shutdowns, with the exception of some survey evidence discussed below. Most national activity data are monthly or quarterly, and may not coincide with the exact periods in which shutdowns are in place. Moreover, they will also include the impact of the substantial policy support for companies and workers provided in many countries since the start of shutdowns.

Business survey measures and monthly GDP information

Special business surveys have been undertaken in a number of countries to track the changes in business operations from the COVID-19 outbreak and the containment measures implemented by national and regional governments. In addition to information about the impact on turnover (see above) and employment common to all surveys, some have asked specifically about whether companies have closed due to the outbreak and containment measures (Figure 2.6). This information provides some insight about the scale and sectoral differences in the direct impact of shutdowns.

- There are sizeable differences across the countries shown. Between 17% and 23% of businesses had closed fully, either temporarily or permanently, in Portugal, Ireland and the United Kingdom, whereas in Belgium and Canada the share was around 30%. This does not translate directly into an output equivalent. The output effect could be lower, if smaller businesses are more likely to have closed down fully than larger ones. Alternatively, some businesses who have shut permanently may not have responded to a survey at all, which could imply that the overall output impact is larger. Many other businesses are still open, but operating well below normal capacity.
- The impact on services is larger than that in industry in all countries, as expected, with accommodation and food services, and the arts, entertainment and recreation sectors being particularly affected.
- There is some heterogeneity across countries, with construction enterprises heavily affected in Ireland, and the trade sector heavily affected in Belgium, where restrictions on distancing and mobility have been relatively strict.
- In Greece, estimates by ELSTAT (2020) suggested that as of mid-April operations in 14.6% of all enterprises were suspended due to state order. In the accommodation and food services sector, and the arts, entertainment and recreation sector, the share of suspended enterprises was 82.5% and 62.2% respectively.
- Surveys in the United States (not shown in Figure 2.6) have generally pointed to smaller effects, and regional differences. The Federal Reserve Bank of New York April surveys reported that 11% and 15% respectively of businesses in manufacturing and service sectors had shut down totally. The April surveys by the Federal Reserve Bank of Dallas found that only 6½ per cent of companies had shut down all of their operations. The weekly surveys by the Federal Reserve Bank of Philadelphia in the first half of April suggested that around one-fifth of firms had shut down on average, with most of these in the non-manufacturing sector. The May surveys by the Federal Reserve Bank of Richmond reported that in total 11% of companies had shut down temporarily, with over one-third of companies having shut down in the accommodation and food services sector and the arts, entertainment and recreation sector.

Figure 2.6. Survey evidence on the share of businesses shut down due to containment measures



Note: The data show the share of companies who have temporarily shut down during the COVID-19 crisis. Permanent shutdowns are included in the data for Ireland and Portugal. Data for Belgium refer to the share of companies reporting that revenue reductions were due to a full or partial prohibition of their activities. The estimates for industry and services are weighted by the number of responding firms in all countries apart from Canada, where sector shares in gross value added at basic prices are used. The data for Belgium are an average from five surveys conducted in the weeks beginning March 27 to April 24, 2020. The data for Portugal are an average from three surveys conducted in the weeks beginning April 6 to April 20, 2020. Data for the United Kingdom refer to the period April 6 to April 19, 2020. Data for Ireland are for the week commencing April 19, 2020. Data for Canada were crowdsourced in the period April 3 to April 24.
Source: National Bank of Belgium; Statistics Canada; Office for National Statistics, United Kingdom; Central Statistics Office, Ireland; Banco de Portugal; and OECD calculations.

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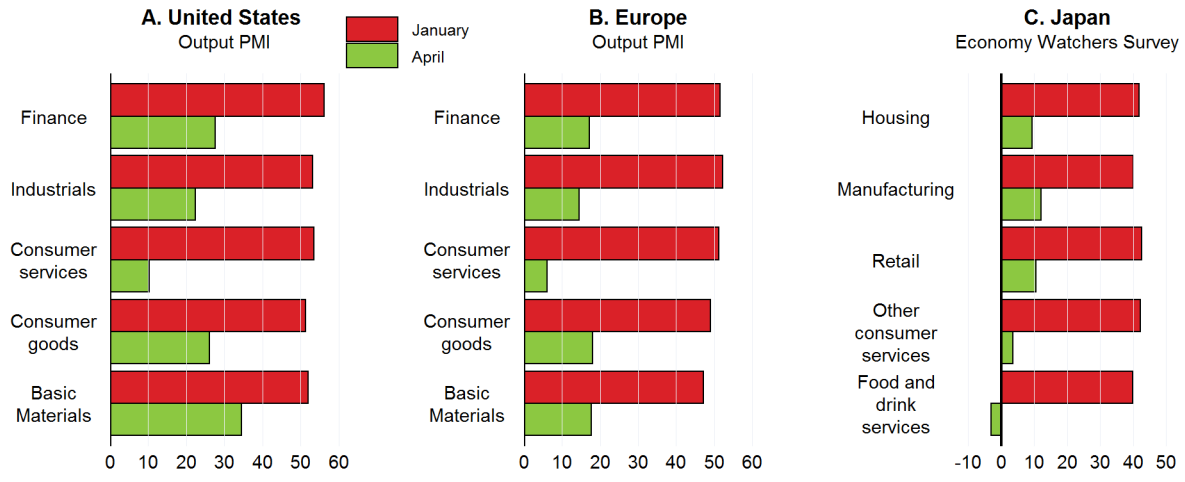
- Cross-country information from business federations suggests that the hospitality (hotels, tourism and catering), transportation and commerce sectors are the ones most likely to be negatively affected by the pandemic (BIAC, 2020).

Additional information on sectoral developments is provided by PMI surveys, which illustrate the magnitude of the hit to output. Sectoral output survey indicators have plummeted in all major economies, in both services and manufacturing (see Chapter 1) with service sectors the hardest hit. Amongst the major advanced economies, the April PMI data pointed to a stronger drop in activity in the euro area and the United Kingdom than in the United States, or Japan, where shutdown measures were implemented more gradually and differed across regions. Detailed sectoral PMIs for Europe and the United States and the sectoral diffusion index of the Economy Watchers survey in Japan illustrate the widespread deterioration in business sentiment across sectors in April (Figure 2.7). These indicators show particularly sharp declines in consumer service sectors in the three areas, with the euro area appearing to be harder hit than the United States.

Early official output estimates also highlighted the sharp downturn in industrial production as shutdown measures began to be implemented, notably in Italy where the level of manufacturing production declined by 31% in March, with regional and then national containment measures being implemented from early that month. Manufacturing production in Germany in April was 25% lower than in February. Large, but smaller declines in production were reported in some other G7 economies, potentially reflecting the later implementation of national or regional confinement measures. In April, industrial production in the United States and Japan was 15¼ per cent and 12½ per cent lower respectively than in February.

Figure 2.7. Business sentiment has declined substantially in most sectors



Source: Markit; Japan Cabinet Office; and OECD calculations.

Monthly GDP estimates for Canada, the United Kingdom and Norway, and the monthly activity indicator produced by the Bank of Chile all indicated a month-on-month decline of between 5½-7¼ per cent in economy-wide output in March. In contrast, a smaller decline in monthly GDP of 1¾ per cent was reported in Finland. A relatively mild effect from the national containment measures is also apparent in Korea, where all-industry production (including services) in April declined for the third successive month, but was just 6% lower than in January.[7]

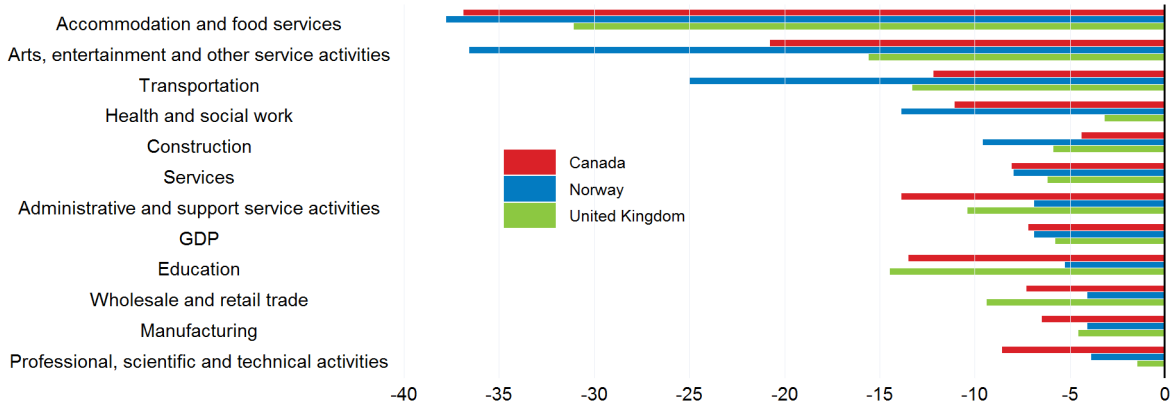
The decline in GDP in March was somewhat higher in Canada and Norway than in the United Kingdom (Figure 2.8), as might be expected with confinement measures being implemented at an earlier stage from mid-March, over a week ahead of the economy-wide shutdown in the United Kingdom.[8] Across sectors, the impact on output was broadly similar in the three countries, with larger effects in services than in manufacturing, and the accommodation and food services sector, and arts, entertainment and other personal services being heavily affected. However, the overall GDP impact suggests a somewhat larger impact from confinement measures in the United Kingdom than elsewhere. Assuming little growth in March ahead of the implementation of shutdowns, the UK data imply a full month output effect of between 20-25%, compared to between 10-15% in Norway and around 15-20% in Canada.[9]

[7] Mainland GDP in Norway is estimated to have declined a further 4.7% in April, with output in April around 11½ per cent lower than in February.

[8] Chile and Finland are not shown in Figure 2.8, as there is little sectoral detail available in their respective estimates of monthly GDP.

[9] These are smaller than the benchmark estimates of shutdowns in OECD (2020a), where activity declines of 19%, 23% and 26% were estimated respectively for Norway, Canada and the United Kingdom.

Figure 2.8. Monthly GDP growth by sector in March



Note: GDP data for Norway refer to mainland GDP. Transportation data excludes ocean transport in Norway.
Source: Statistics Canada; Statistics Norway; Office for National Statistics; and OECD calculations.

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Information about the impact of shutdowns on consumer spending remains relatively limited, but there are signs of a sharp decline in several countries from indicators of consumer spending.

- In France, one study estimated that private consumption could be reduced by about a third during the shutdown (INSEE, 2020).
- One study for the United States estimated a 28% decline in consumer spending after containment measures were introduced in most states (Dunn et al., 2020). Monthly US national accounts data, which incorporate weeks prior to shutdowns as well as the effect of supportive government policies, point to a slightly smaller decline, with consumer spending in April 19.1% lower than in February 2020.
- The volume of retail sales has fallen sharply in the United Kingdom and the euro area, with monthly sales in April 22.3% and 22.5% lower respectively than in February.
- In Ireland, based on the decline of the volume of credit and debit card transactions in late March, the central bank estimated that consumption could drop by 28% during a full month of shutdown (Central Bank of Ireland, 2020).
- Retail sales have weakened in Germany, but to a lesser extent than elsewhere, with retail turnover at constant prices in April 9.8% lower than in February.
- Car sales were extremely weak in many countries in April (see Chapter 1).

National estimates of the impact of shutdowns on activity

National estimates and scenario analyses also point to a very large impact from government measures to slow the propagation of the virus, but highlight significant sectoral differences. To quantify the impact of the shutdown, national statistical agencies, central banks and research institutes combine business surveys with high frequency quantitative data, such as credit card transactions or daily energy consumption, providing additional insights on the state of the different economies.

- The impact of the shutdown on agriculture is generally estimated to be relatively mild, the sector being relatively little affected by containment measures, although constraints on travel may reduce the availability of seasonal workers in some countries. Available estimates point to a loss of output ranging from 13% in France (INSEE, 2020) and Spain (Prades Illanes and Tello Casas, 2020) to virtually zero in Germany (IFO, 2020).
- The manufacturing sector is more severely affected. In the United Kingdom, in a reference scenario of the economic impact of the COVID-19 outbreak, a 55% decline in activity is assumed (OBR, 2020), and in France the drop in activity is estimated at about 40% (INSEE, 2020). A milder decline of 15% in manufacturing output is estimated for Germany by (IFO, 2020). In Italy, estimates suggest that activity could decline by over one-half in the industrial sector (Banca d'Italia, 2020). For the euro area as a whole, the scenarios produced by the ECB assume a 40% loss in manufacturing activity (Battistini and Stoevsky, 2020). A smaller decline of just over one-quarter is projected in Estonia (Bank of Estonia, 2020).
- Detailed estimates for manufacturing industries suggest that the transport equipment sector is the most severely impacted. In Portugal, a decline of over three-quarters is assumed from survey information (Banco de Portugal, 2020b). The loss of activity is estimated at close to 70% in France (INSEE, 2020) and just over 40% in Germany (IFO, 2020).[10] Estimates by ACEA (2020) suggest that output in Italy, Spain, the United Kingdom and France came close to a standstill in April.
- Assessments of the impact of shutdowns on construction activity vary widely across countries, from a decline of around 75% in France to under 10% in Estonia and Germany. In a scenario analysis, the ECB assumes a hit of 40% for the euro area as a whole. The significant differences across countries appear consistent with differences in national containment measures. In Germany, for instance, the infrastructure, residential and utility construction sectors were exempted from lockdowns, while only around one-half of these sectors' activities in Italy are considered as non-essential (Banca d'Italia, 2020). In France, construction site closures were widespread. Estimates for Spain show the sensitivity of the assumptions made about the extent to which activity is halted during a shutdown, with construction output estimated to decline by 5% in a moderate closure and ceasing completely in a severe closure (Prades Illanes and Tello Casas, 2020).
- Among private services, the accommodation and food services sector is commonly seen as the hardest hit, with a decline of activity estimated to range from 100% in Spain (Prades Illanes and Tello Casas, 2020) to just under two-thirds in Italy. Physical distancing also strongly affects the arts and recreation sector with a loss of activity ranging from 40-90% in the countries for which estimates are available. The virtual cessation of tourism activities also has a strong impact on passenger transport and freight transport of non-essential products. In Portugal, air transport activity is assumed to have declined by 87% (Banco de Portugal, 2020b). The Banco de España (2020) assumes a 60% reduction in transport activities in Spain in a scenario analysis, close to estimates by INSEE for France and well above the OBR assumption for the United Kingdom of 35% and the IFO estimates for Germany of about 30%.[11]

[10] Data released in early June suggest that car production declined by around 75% in Germany in April.

[11] IFO does not provide the aggregate impact for the transportation activities but estimates a decline in output of 76% for air transport, 16% for water and land transport and 40% for postal services. The figure provided here is an OECD output-weighted estimate based on this information.

- On the other side of the spectrum, financial and insurance activities are assessed to be the least impacted by shutdowns, with an estimated loss of activity of 10% or less. Teleworking is common in this sector (ONS, 2020; Statistics Canada, 2020).
- In France, Italy and Spain, where the shutdown has been the most stringent, the collective loss of activity in the wholesale and retail sector is estimated to range between 47% and 64%.Operations in just under 40% of the enterprises in the retail sector were suspended in Greece (ELSTAT, 2020).
- Although the health and social activities sector was generally expected to keep operating close to or at full capacity during the pandemic (in part because some output in these sectors is measured using labour income), a striking decline in activity is reported in some national estimates. In Germany, a decline of just under 50% in activity during the shutdown is estimated by IFO (2020). In the United Kingdom, an ONS business survey reported that about a quarter of all health care facilities and medical offices in this sector had turnover at least 20% lower than normal. The postponement of non-urgent interventions and the impact of distancing on social activities may explain these shortfalls. In Greece, ELSTAT (2020) reported that 48% of all enterprises in social work activities (NACE 88) had suspended operations.

National estimates have evolved over time, highlighting the uncertainty around all such estimates. In Germany, for example, early estimates by the IFO Institute in March, based on six scenarios that each had a different combination of assumed sectoral shutdown effects,[12] indicated that total value added could fall by 35% to 49% depending on the scenario (Dorn et al., 2020b). In late April, based on its monthly surveys among companies, this was revised to a decline of 16-17% in output during the shutdown (IFO, 2020). A further illustration of uncertainty about the extent of the shutdown is provided in Canada, where the central bank estimates a decline of between 15% and 30% of GDP in the second quarter of 2020 (Bank of Canada, 2020). Estimates by Prades Illanes and Tello Casas (2020) show that the impact on activity of a severe shutdown (including the closure of non-essential businesses) can be over twice as large as the impact of a moderate shutdown.

A summary of the national estimates, and assumptions in scenario analyses, is shown in Table 2.1, alongside the initial benchmark assumptions made in OECD (2020a). All national estimates point to a significant hit on the accommodation and food services and on the arts and recreation sectors, but the results for other sectors are much more heterogeneous. In part, this variation reflects differences in the stringency of the containment measures, as well as the inclusion of spillover effects in some national estimates. Shutdowns in construction, for instance, are larger in the national estimates for France and the United Kingdom than in OECD benchmark assumptions, but similar in Italy and lower in Germany, Spain,[13] Estonia and Portugal. Such differences can probably be explained by national policy divergences. In other sectors, the heterogeneity of sectoral impact estimates may reflect the large uncertainties surrounding the impact of the lockdown in the absence of timely hard data. Estimates for Spain (Banco de España, 2020 and Prades Illanes and Tello Casas 2020) and the United Kingdom (OBR, 2020) are assumptions for scenario analyses, although high frequency data and business survey results may have informed the assumptions for some sectors.

[12] The ranges of sectoral shutdown effects across the scenarios were 20-100% for construction, 50-80% for wholesale trade, 20-50% for retail trade, 20-100% for accommodation and food, and 20-50% for real estate activity; arts and entertainment was assumed to be fully shut down in all the scenarios (see appendix to Dorn et al., 2020b).

[13] Construction sector activity was fully halted during the first phase of the shutdown (between March 30 and April 9) when all non-essential activities were suspended (Prades Illanes and Tello Casas, 2020).

Table 2.1. Cross-country differences in sectoral shutdown estimates

	ISIC4	OECD shutdown assumption	DEU	ESP	EST	FRA	GBR	ITA	PRT
Industry	VB+VC+VD		14.8	23.3		38	46	55.9	30
Manufacturing	VC		14.6	24.2	27		55		35.3
Transport equipment manufacturing	V29_30	100	41	100		69			78.7
Construction	VF	50	3	5	8	75	70	55	26.5
Wholesale & retail trade	VG	75	18.6	64	26	47	50	51.8	35.6
Transportation & storage	VH		30		21	59	35		57.4
Air transport	V51	75	76	75	.				87.1
Accommodation & food services	VI	75	68	100	82	90	85	63.9	70.3
Real estate services (excluding imputed rent)	VL-V68A	100	5.2	71.2	10.4	5.4	66.7		79.7
Professional services	VM	50	10	23	0	4.4	40		23.4
Arts, entertainment & recreation	VR	100	43	100	90	76	60	65.6	62.2
Other personal services	VS	100	31	0	0				
Total economy shutdown (% of GDP)			16.6	28.2	13.4	33	35	27.6	30.7
Proportion due to sectors OECD assumed shut down			0.45	0.73	0.57	0.57	0.62		0.56
OECD illustrative estimate of shutdown (% of GDP): direct impact			29.2	29.1	24.9	25.9	26.4	26.3	26.6

Note: The national total economy shutdown estimates and assumptions include changes in other sectors that are not shown in the table. For France, data refer to INSEE estimates released on 7 May. Real estate estimates for Estonia, Germany, France, Portugal, Spain and the United Kingdom have been rescaled from the national sources, as the national estimates and assumptions for real estate are assumed to apply only to real estate services excluding imputed rent. For Spain, the figures reported correspond to the moderate closure scenario with spillover effects in Prades Illanes and Tello Casas (2020), augmented by information from Banco de Espana (2020). The shock to real estate renting and business activities is assumed to apply to both real estate and professional services. For Portugal, the Banco de Portugal does not report the aggregate declines in activity for the whole economy, industry, manufacturing, transportation and storage, and wholesale and retail trade. The numbers shown are OECD estimates based on national accounts data and the declines in the detailed sectors used by the Banco de Portugal.
Source: Bank of Italy; Bank of Spain; Banco of Portugal; IFO Institute for Economic Research; INSEE; Office for Budget Responsibility; and OECD calculations.

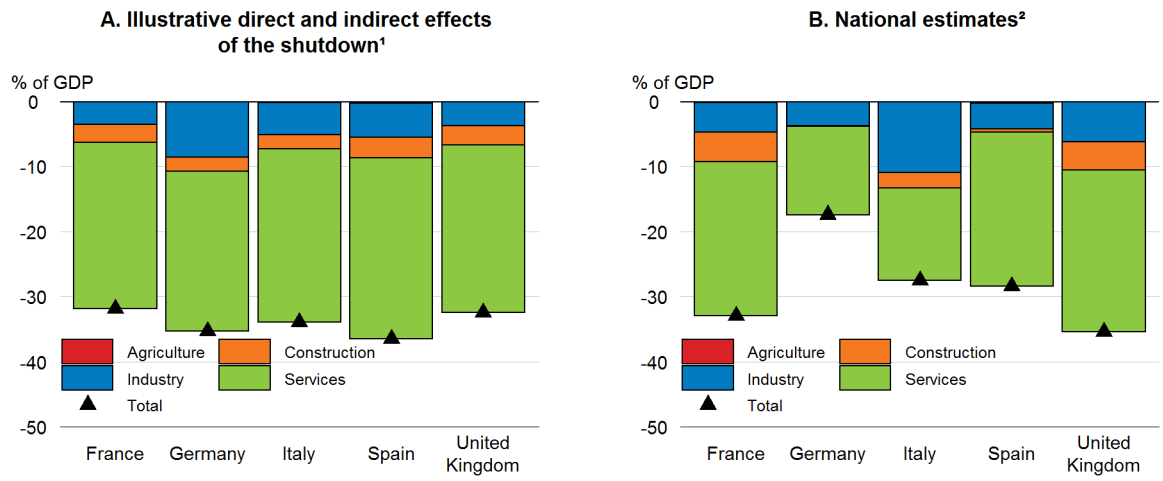
Overall, the sectors in which the OECD benchmark estimates had assumed shutdowns would occur account for between 50% and 75% of the aggregate impact on GDP in the national shutdown estimates. The main differences with the OECD benchmark assumptions are in wholesale and retail trade, professional services and real estate services, where the activity impact in national estimates is weaker than assumed by the OECD. Differences for wholesale and retail trade are likely to result primarily from the implicit benchmark assumption for wholesale trade (a decline of 75%), given the indications of weakness in retail sales in many economies in March and April.

In spite of sectoral differences, the overall impact on activity in the OECD illustrative shutdown estimates is broadly similar to national estimates in countries that have implemented relatively stringent containment measures, such as Italy, France, Spain or the United Kingdom, with activity declining by around 30% or more (Figure 2.9), and with the largest contribution coming from service sectors. An implication of this finding is that the impact in the sectors included in the OECD estimates may collectively be smaller than assumed, while the impact in other parts of the economy (including second-round input-output effects) may be larger. The major difference is with Germany, where the activity estimate by IFO (2020) is around one-half of the illustrative shutdown estimate. Around two-fifths of this gap is accounted for by differences in judgements and assumptions about activity in transport manufacturing and construction.

Equivalent national estimates and scenario analyses are not directly available in most other countries, including the United States, and Canada. However, the evidence for Germany points to the possibility of a smaller overall decline in output than in the illustrative benchmark estimates that assumed common confinement measures. Such an outcome would be consistent with business surveys and high-frequency activity indicators (see Chapter 1). These also point to sizeable, but smaller, declines in Germany and some smaller economies than in the other major European economies.

Figure 2.9. Differences between national estimates of shutdowns and OECD illustrative estimates

Per cent of GDP, constant prices



1. The estimates combine the illustrative direct impact of shutdowns plus the calculated input-output spillovers.
2. The national estimates include estimates comes from INSEE (2020) for France, IFO (2020) for Germany, Bank of Italy (2020) for Italy, Prades Illanes et al (2020) for Spain (the chart illustrates the moderate closure scenario with spillover effect) and OBR (2020) for the United Kingdom.
Source: IFO Institute for Economic Research; Banco de España; INSEE; Office for Budget Responsibility, Banca d'Italia; OECD Annual National Accounts; OECD STAN database; and OECD calculations.

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Issue Note 2: Corporate sector vulnerabilities during the COVID-19 outbreak: Assessment and policy responses

This note investigates the financial vulnerability of non-financial firms associated with the confinement measures introduced in most economies to tackle the COVID-19 pandemic. Based on empirical simulations, it evaluates the extent to which firms may run into a liquidity crisis and discusses the immediate steps that governments can take to reduce the risks and depth of such crisis, ensuring that it does not turn into a solvency crisis.

Introduction

The health crisis caused by the COVID-19 outbreak has led public authorities to take unprecedented measures to contain the propagation of the virus. Administrative business shutdowns, quarantines and restrictions on mobility and social contact have brought large parts of economies almost to a standstill (OECD, 2020a). Sales across many sectors have plummeted. Nevertheless, financial commitments with respect to suppliers, employees, lenders and investors remain, depleting liquidity buffers of firms. The sharp reversals in earnings expectations for companies has significantly weakened their projected interest coverage and profitability ratios (OECD, 2020b). The large number of firms that are simultaneously affected constitutes a major challenge. Producers of intermediate goods or services have also experienced a drop in sales even if confinement measures do not require them to shut down. Since many firms along supply chains face liquidity shortfalls, trade credit losses may increase, further adding to cash-flow pressures.

The liquidity crisis may turn into a global corporate solvency crisis. With much less or no incoming revenues for an extended period of time and fewer options to deal with this shortfall, the long-term viability of firms is impaired, and firm voluntary closure and bankruptcies may follow. Human and organisational capital would be eroded and may vanish with defaults of firms that prior to the virus outbreak were profitable and with healthy balance sheets. Global value chains will be disrupted if highly integrated firms have to exit the market. High uncertainty about the future course of the economy will reduce corporate investment and consumption demand. As a result, a corporate solvency crisis could have serious long-term negative effects on economies by dragging down employment, productivity, growth and well-being.

The risk of a financial crisis is high. In the absence of a robust policy response, corporate defaults of a significant number of firms would undermine balance sheets of banks and institutional investors. This could close markets for debt and equity financing, and might feed a self-reinforcing downside spiral in the corporate sector, in turn significantly increasing the likelihood of a crisis. Moreover, bankruptcies across a wide set of firms combined with bailouts by governments of systemic firms might decrease competition, with consequences for future productivity growth.

Awareness of these risks has lead governments to adopt a range of emergency measures aimed at supporting firms' liquidity. Aside from monetary measures taken by central banks, fiscal interventions include direct and indirect financing of the wage bill (including by extending the coverage and increasing the unemployment benefit replacement rate, short-term work schemes and temporary unemployment benefits), tax deferrals, debt moratoria and extension of state loan guarantees.

This note evaluates the risk of a widespread liquidity crisis using a cross-sector sample of almost one million European firms and discusses the pros and cons of different kinds of public support measures. The analysis covers all manufacturing and non-financial services sectors.[1] The note focuses on the first-round effects of the containment measures induced by the crisis, abstracting from the potential cascading effects via supply chains, financial interconnections between firms and financial distress in the banking system – other than those implicitly assumed in the size of the sectoral shocks – as well as from the structural adjustments that will be needed in a second phase of the response to the crisis.[2]

Based on illustrative assumptions regarding the evolution of sales and elasticities of costs to sales, the note sheds light on the risk of corporate insolvency.[3] Comparing the percentage of firms that would turn illiquid under a no-policy change scenario and under policy intervention, the results emphasise the key role of policies to avoid massive unnecessary bankruptcies. The main findings of the analysis are summarised in Box 2.1.

Box 2.1. Four main findings stand out

- Without any policy intervention, 20% of the firms in the sample used would run out of liquidity after one month, 30% after two months and 38% after three months. If the confinement measures lasted seven months, more than 50% of firms would face a shortfall of cash. This result is mainly driven by the impact of the confinement in the most hit sectors.
- Firms facing a high risk of liquidity shortfalls are mostly profitable and viable companies. However, a sizeable share of these firms do not have enough collateral to bridge a shortfall in liquidity with additional debt and/or are too highly leveraged to bridge the crisis through further bank loans.
- Among the wide and complementary range of measures introduced by OECD countries, direct and indirect support to wage payments seems to be the most critical policy to curb the liquidity crisis, given the high share of wage costs in total spending.
- Adding up different policy measures (tax deferral, debt moratorium and wage subsidies at 80% of the wage bill), the simulation suggests that after two months government interventions would decrease the percentage of firms running out of liquidity from 30% to 10% compared to a non-policy scenario.

[1] More specifically, it covers all economic sectors except the followings (Nace Rev.2 classification): agriculture (VA), mining (VB), financial (VK), public administration (VO), education (VP), human health (VQ) and activities of households and organizations (VT and VU).

[2] A more detailed version of this note is available in the OECD-COVID hub.

[3] The methodology is similar to the one used by Schivardi and Romano (2020) for the case of Italy, and is based on a number of assumptions detailed in the remainder of the note. It is also close in spirit to De Vito and Gomez (2020).

The risk of liquidity shortages is high for a large portion of firms

Measures on social distancing and mobility restrictions dramatically affect services involving direct contact between customers and providers, activities gathering people in public and private places, and travelling, as well as non-essential manufacturing and construction activities involving close physical contact among workers. Activities that can be undertaken remotely or automatised are relatively less affected — to the extent that the supply chain is not broken and consumer demand can be maintained, at least in part. It follows that the decline in activity is assumed to be different across sectors but identical across countries.

Consistent with OECD (2020a) and Chapter 2, Issue Note 1, the following declines in revenues are assigned to a set of severely hit sectors: 100% in manufacturing of transport equipment (ISIC V29-30), real estate services (VL), arts, entertainment and recreation (VR) and other service activities (VS); 75% in wholesale and retail trade (VG), air transport (V51), and accommodation and food services (VI); and 50% in construction (VF) and professional service activities (VM).[4] For the remaining non-financial sectors a conservative 15% revenue shock is assumed, while providing sensitivity analyses assuming a larger decline (e.g., a 30% shock).

Three alternative scenarios are considered with respect to the duration of the shock.

- A “prolonged confinement” scenario, which projects the evolution of firms’ liquidity positions month by month since the start of the confinement, hence being agnostic on its length and avoiding modelling the recovery.

- A “single-hit” scenario, which foresees a sharp drop in activity lasting two months, followed by a four-month progressive recovery and a return to pre-crisis activity levels from the seventh month after the start of the pandemic.

- A “double-hit” scenario, which overlaps with the “single-hit” scenario for the first seven months but then models a second outbreak from the eight month onwards.

The “single-hit” and “double-hit” scenarios have the advantage of being closer to the predicted evolution of the pandemic and consequent confinement over time. However, the stylised “prolonged confinement” scenario provides a neat overview of firms’ resilience in a simpler way, relying on a smaller set of assumptions on the path of the recovery and, therefore, it is used as the baseline throughout the note.

A stylised accounting exercise allows to calculate the share of firms that become illiquid month by month following the introduction of confinement measures for each scenario. The economic shock from measures of social distancing is modelled as a change in firms’ operating cash-flow, resulting from the decline in sales and from firms’ limited ability to fully adjust their operating expenses. Next, the liquidity available to each firm is calculated as the sum of the liquidity buffer held at the beginning of each month and the shock-adjusted cash-flow (Box 2.2).

[4] The assumptions on the decline in revenues in the hardest hit sectors are based on qualitative information from the OECD Policy Tracker.

Box 2.2. A methodology to evaluate firms' liquidity position during the COVID-19 crisis

The approach relies on financial statements of non-financial corporations from the Orbis database, provided by the consulting firm Bureau Van Dijk, which collects balance sheet data on both listed and unlisted firms worldwide. After the application of standard data cleaning procedures and the exclusion of small firms to avoid concerns related to the quality of the data (e.g., those having less than 3 employees), the final sample consists of 890,969 unique firms, operating in both manufacturing and business non-financial services industries.

Orbis is the largest cross-country firm-level dataset available and accessible for economic and financial research. However, the extent of the coverage varies considerably across countries. To deal with data limitations, the note focuses on 14 relatively well-covered European countries, and purposely avoids in-depth cross-country comparisons, as well as the provision of absolute numbers on the aggregate depth of the shortfall.[5] Moreover, firms in Orbis are on average disproportionately larger, older and more productive than in the population, even within each size class. The analysis is hence expected to deliver a lower bound for the liquidity shortages potentially affecting non-financial corporations.

The study assumes that the last available data for each firm (end of 2018) represents its financial situation in normal times with respect to its average revenues, operating expenses, debt payment and taxes. The economic shock from measures of social distancing is modelled as a change in firms' operating cash-flow. To reflect firms' adjustment capacity, elasticities of intermediate costs to sales and of the wage bill to sales are estimated by assuming, for simplicity, that they are identical and constant across countries and sectors. Each month, firms' shock-adjusted cash-flow (assuming zero investment spending) is determined as follows:

$$\begin{aligned} ShockAdjustedCashFlow_{it} \\ &= (1 - s_{st}) * Revenues_i - (1 - c * s_{st}) * Intermediates_i \\ &- (1 - w * s_{st})\, WageBill_i - Taxes_i - DebtPayments_i \end{aligned} \tag{1}$$

where s_{st}, c, w refer, respectively, to the size of the shock in sector ***s*** in month ***t***, the elasticity of intermediates cost to sales, and the elasticity of wage bill to sales. Firms' sales, intermediate costs, wage bill, taxes and debt payments are annual values divided by 12 to obtain average monthly values.

The elasticities of intermediate inputs to sales and of the wage bill to sales are estimated through a panel regression analysis based on yearly data. The former is close to unity, while the latter is estimated around 0.4. As expected, these calculations suggest that firms have a higher ability to adjust intermediates consumption than labour input. To take into account the fact that the ability to adjust is lower when looking at monthly rather than annual figures, in line with Schivardi and Romano (2020), both elasticities are conservatively reduced to 0.8 and 0.2, respectively.

Next, the liquidity available to each firm is calculated month by month as the sum of the liquidity buffer held at the beginning of the period and the shock-adjusted cash-flow, assuming zero investment spending:

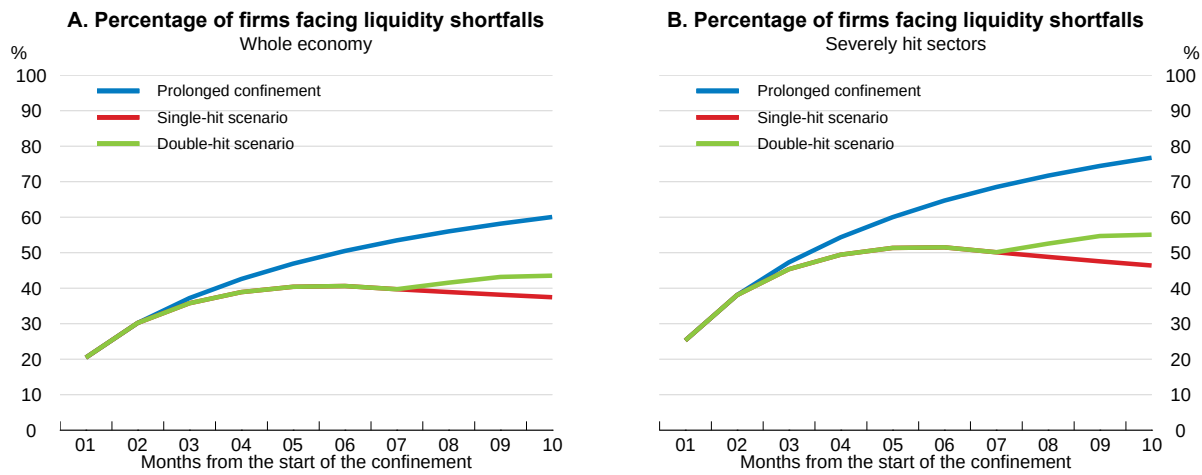
$$Liquidity_{it} = Liquidity_{i,(t-1)} + ShockAdjustedCashFlow_{it} \tag{2}$$

where $Liquidity_{i,(t-1)}$ refers to the liquidity remaining from the previous month and is equal to a firm's cash holdings in the first period.

[5] Countries included in the sample are: Belgium, Denmark, Finland, France, Germany, Hungary, Ireland, Italy, Poland, Portugal, Romania, Spain, Sweden and the United Kingdom.

The main results (Figure 2.10, Panel A) suggest that, in the absence of government intervention, 20% of firms in the sample would run out of liquidity after one month, 30% after two months, and around 35-38% (depending on the scenario considered) after three months. If the confinement lasted seven months, more than 50% of firms would face a liquidity shortfall in the "prolonged confinement" scenario. By contrast, assuming that economic activity progressively resumes after two months of confinement, as in the "single-hit" and "double-hit" scenarios, the percentage of firms facing liquidity shortfalls would reach 40% after seven months. This share would increase to 45% after 10 months in the case of a second confinement wave ("double-hit" scenario).[6] The percentage of firms running out of liquidity is significantly higher when focusing on the most severely hit sectors (Figure 2.10, Panel B). For instance, in these sectors the percentage of illiquid firms would rise up to 70% (50%) in the "prolonged confinement" ("single-hit" or "double-hit") scenario after seven months.

Figure 2.10. Liquidity shortfalls without government interventions: Whole economy and severely hit sectors



Note: Panel A shows the percentage of firms facing liquidity shortfalls over the whole sample, while Panel B focuses exclusively on the most severely hit sectors. Both panels consider three alternative scenarios: prolonged confinement (blue line), single-hit (red line), and double-hit (green line) scenario. The prolonged confinement scenario envisages a sharp drop in activities in each month considered, being agnostic on the length of the confinement and on the transition to normality. The single-hit scenario foresees a sharp drop in activity lasting two months, followed by a four-month progressive transition towards normality, and a return to pre-crisis activity levels from the seventh month after the start of the epidemic. The double-hit scenario overlaps with the single-hit scenario for the first seven months, but then models a second outbreak from the eight month onwards. The decline in output is assumed to be: between 50 and 100% in the most severely hit sectors -- manufacturing of transport equipment (ISIC V29-30), real estate services (VL), arts, entertainment and recreation (VR), other service activities (VS), wholesale and retail trade (VG), air transport (V51), accommodation and food services (VI), construction (VF) and professional service activities (VM); 15% in the other sectors.
Source: OECD calculations based on Orbis® data.

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[6] The Annex reports this additional set of results: assuming a decline in output of 30% (rather than 15%) in the other manufacturing and non-financial sectors (Figure 2.A.1, Panel A); and for five countries among those with the best coverage in Orbis® (France, Italy, Portugal, Spain and Sweden) (Figure 2.A.1, Panel B).

It is important to stress again that these estimates are likely a lower bound given the sample bias towards healthier firms and the conservative assumptions made on elasticities. At the same time, to reflect the decision of most governments to provide general support to firms in the first stage of the crisis, the simulations include also firms that would have faced liquidity shortfalls even in the absence of the COVID-19 pandemic. After one month, the percentage of such firms ranges between 1.5% and 6.5%, depending on cash-flow in normal times. Thus, even when considering the 6.5% upper bound estimate, the COVID-19 crisis would imply a threefold increase in the share of firms experiencing liquidity shortages after one month.

Overall, the findings suggest that, due to the COVID-19 crisis, a large amount of otherwise profitable firms would run into a liquidity shortfall that may trigger bankruptcy. This shock could therefore have large and permanent adverse effects.

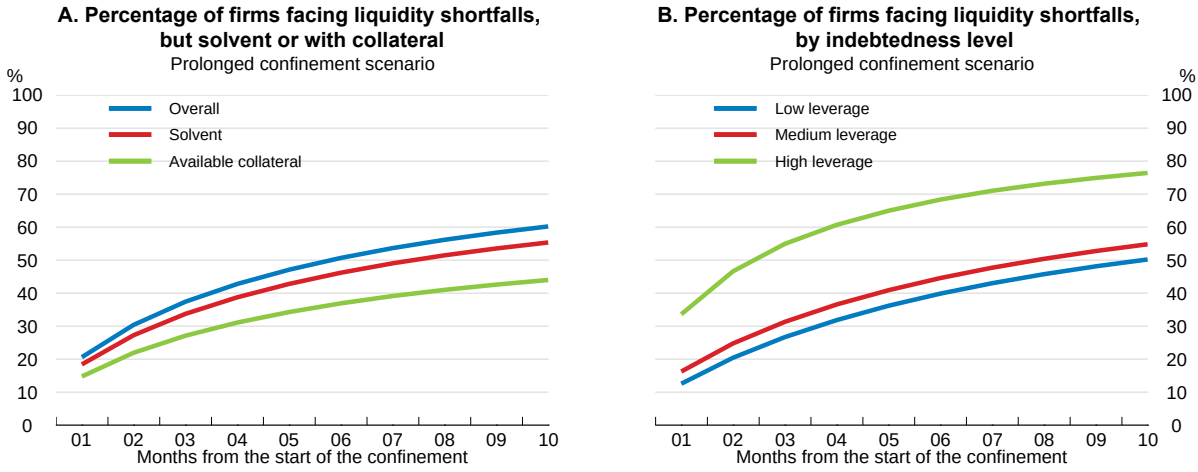
Firms facing liquidity shortages are often solvent, but their access to additional debt financing may be limited due to low collateral

Firms may run into a liquidity shortfall if their assets are not liquid enough to cover current expenses. However, they may still be solvent if the value of their assets is larger than the value of their liabilities or, equivalently, if they have collateral to pledge in order to obtain additional bank financing (Figure 2.11, Panel A).[7] Only a relatively small percentage of firms (around 10%) among those expected to face liquidity shortfalls would be close to insolvency when evaluating their overall net worth. At the same time, even though solvent, they might have difficulties in accessing new bank financing: around 28% of firms turning illiquid during the confinement would lack the collateral to tap into additional debt financing. Moreover, a decrease in asset valuations during the confinement would reduce the value of firms' potential collateral, further impairing their ability to obtain funding. Similarly, and despite its development over the last two decades, market-based financing from non-banks might also be affected, as the price of traded debt rises in periods of acute market stress, and so does the business' cost of financing (OECD, 2020c). Finally, highly leveraged firms tend to have a higher probability of facing liquidity shortages. Combined with the high uncertainty about sales and other incoming cash-flows in the near future, this makes obtaining new loans more difficult (Figure 2.11, Panel B).

While these figures are based on several assumptions and must be interpreted with caution, they underline the merit of swift and decisive public intervention to safeguard companies and avoid potential bankruptcies of otherwise healthy companies. Such intervention is crucial to prevent the temporary shock implied by the COVID-19 crisis from permanently scarring the corporate sector, with serious consequences for the shape of the recovery and long-run growth prospects.

[7] Collateral is proxied by the difference between fixed assets and non-current liabilities.

Figure 2.11. Liquidity shortfalls without government intervention: solvency, collateral availability and indebtedness



Note: Panel A plots the percentage of firms facing liquidity shortfalls: overall (blue line); but still potentially solvent, i.e., if the value of their assets is larger than the value of the liabilities (red line); having collateral to pledge to obtain additional bank financing, i.e., if the value of their fixed assets is larger than the value of their non-current liabilities (green line). Panel B plots the percentage of firms facing liquidity shortfalls by indebtedness level, i.e.: belonging to the lowest 1/3 of the leverage distribution within each (2-digits Nace Rev.2) sector (blue line); belonging to the middle 1/3 of the leverage distribution within each sector (red line); belonging to the highest 1/3 of the leverage distribution within each sector (green line). Leverage is measured as the ratio between financial debt (short- plus long-term debt) and total assets. The calculations are based on the prolonged confinement scenario. The prolonged confinement scenario envisages a sharp drop in activities in each month considered, being agnostic on the length of the confinement and on the transition to normality. Moreover, the decline in output is assumed to be: between 50 and 100% in the most severely hit sectors (see above the text for details); 15% in the other sectors.
Source: OECD calculations based on Orbis® data.

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Public policies to reduce liquidity shortages and curb bankruptcy risk

Countries have already introduced a wide range of measures to help firms deal with the disruptions associated with COVID-19 (Box 2.3). The simple accounting model described above is used to illustrate the expected impact of stylised policy interventions in three areas:

- *Deferral of tax*. To support businesses during the pandemic, several countries have introduced tax deferrals. The tax deferral is modelled as a moratorium of (hypothetical) monthly tax payments.
- *Financial support for debt repayment*. A large number of countries have also established legislative frameworks that temporarily allow firms to postpone their debt payments or alternatively offer state guarantees to facilitate access to short-term debt facilities. The potential impact of such policies is modelled as a moratorium on short-term debt.
- *Temporary support to wage payments*. A critical response to avoid widespread liquidity shortfalls consists of relaxing firms' financial commitments vis-à-vis their employees. Schemes such as a shortening of working time, wage subsidies, temporary lay-offs and sick leave have been introduced across countries, though in different combinations. All these measures reduce the wage bill firms have to pay. They are modelled in two alternative ways: as an unconditional reduction of

the wage bill by 80% in all sectors;[8] and as a support adjusted to the sectoral size of the shock and modelled through an increase to 0.8 of the elasticity of wage bill to sales.[9]

Box 2.3. Measures adopted in OECD countries to support workers and firms in the wake of the COVID-19 crisis

This box provides some examples of concrete measures OECD economies have implemented to support workers and companies through the COVID-19 crisis. The OECD Covid tracker gives a more detailed overview of country-level health and economic measures adopted. Tax policy measures to tackle the COVID-19 crisis are summarised in the Tax Policy Database in Response to COVID-19 Pandemic (OECD, 2020d). Additionally, several OECD economies have introduced policy responses targeted specifically at SMEs (OECD, 2020e).

Many OECD countries subsidise temporary reductions of hours worked in firms impacted by confinement measures. Austrian authorities, for example, support wages of workers in all sectors (except public service) of up to 90% of the net salary. The scheme allows to temporarily reduce the number of hours worked to zero, however, workers are required to work at least 10% of the working-time calculated over the full period in which the firms receives support through the short-time work scheme. The maximum period of support through short-term work is three months (and might be extended to six months if necessary). The total amount taken over by the government varies with the gross salary. For gross salaries up to EUR 1,700, authorities pay 90% of the net salary. Workers with salaries below EUR 5,370 still receive 80% of their salary, whereas higher salaries are not subsidised.

Another set of measures consists of financial support for debt repayment. The Business Credit Availability Program (BCAP) in Canada, for example, supports access to financing during the COVID-19 crisis in various ways for firms across all sectors. Small businesses with up to CAD 1.5 million in total payroll costs in 2019 can receive interest-free loans up to CAD 40 000 to cover operating costs (e.g. utilities, payroll, rent, debt service). These loans are fully guaranteed by the public. One-fourth of the loan is forgiven if it is repaid by the end of 2022. If not, the loan will be automatically converted to a three-year loan at a 5% interest rate. Larger businesses can tap additional bank-based debt financing up to a total loan amount of CAD 6.25 million, guaranteed to up to 80% by the authorities. These loans comprise only operating costs and cannot be used to fund dividend payments, share repurchases and other shareholder payments, increases in the compensation of executives or to refinance or repay existing debt.

Besides guaranteed loans, a couple of OECD countries directly subsidise firms' operating costs. Norway, for example, compensates Norwegian firms that suffered significant losses of turnover due to the COVID-19 crisis. All taxable registered companies in most sectors (except oil and gas, financial industry and utilities) in Norway are eligible for this compensation under the condition that they were not already in financial distress before the crisis.

[8] According to the OECD COVID-19 policy tracker the amount of labour subsidy varies across countries between 60% to 100% with gross wage, with a great majority of countries providing a support ranging from 70% to 90%. This is the case for instance in Canada, Denmark, France, the Netherlands, Norway, Sweden and Japan.

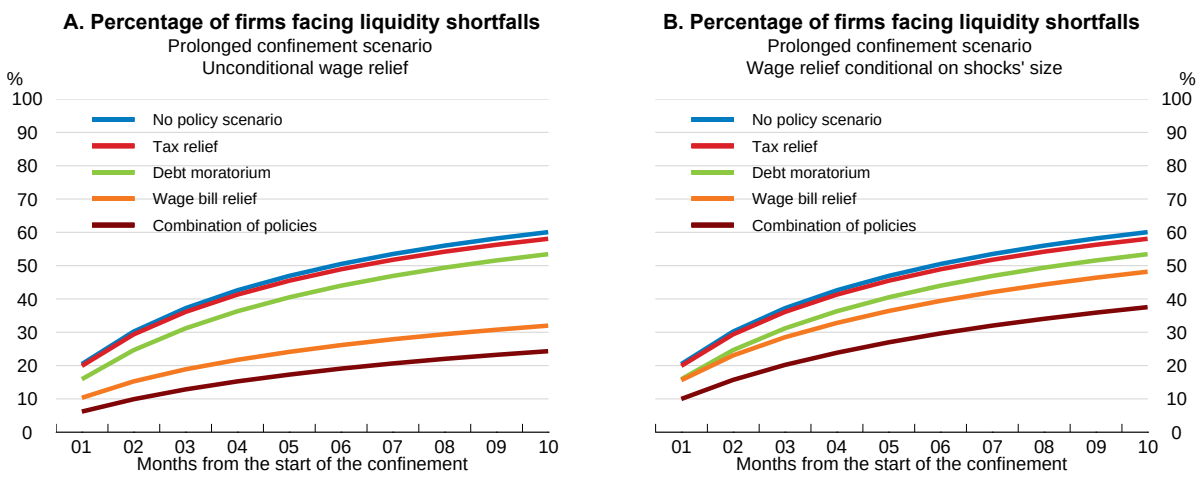
[9] Indeed, in some countries the support is targeted only to firms experiencing a sizeable shock in their activity. The elasticity implies that the support is ranging from 40% to 80% depending on the size of the sectoral shock.

Temporary reductions in tax rates or deferrals of tax or social security payments constitute a further possibility to prevent liquidity shortfalls in the short term. Korea has introduced a temporary special tax reduction for SMEs located in COVID-19-related disaster areas until the end of 2020. VAT payments by small businesses, i.e. businesses with less than KRW 80 million in annual revenues, are reduced as well until the end of 2020. Small businesses can further defer taxes up to one year and social security contributions up to three months.

Several OECD economies have complemented subsidies, loan guarantees and tax-related measures with "soft" tools to ensure repayments and to safeguard operating cash-flow. In France, for example, the authorities actively support mediation over credit conflicts between private parties with a free, fast and reactive mediation service. French SMEs can also mobilise credit mediation if they experience difficulties with one or more financial institutions. Furthermore, the Ministry of Economy and Finance has set up a crisis unit dedicated at inter-company credits to monitor the use of trade credit.

Figures 2.12 and 2.13 illustrate the extent to which each measure curbs the risk of a liquidity crisis compared to the no-policy intervention scenario. In particular, Figure 2.12 looks at the two alternative temporary supports to wage payments under the prolonged confinement scenario. Figure 2.13 further distinguishes between the "single-hit" and "double-hit" scenarios when assuming an unconditional reduction of the wage bill by 80% in all sectors. Tax deferral has the lowest impact on firms' liquidity positions, followed by debt moratorium policies. Subsidies to the wage bill seem to be the most powerful measure (yet potentially costly), in line with the fact that wages and salaries are often a relevant component of operating expenses. Adding up the three different measures, public intervention after two months, for instance, would decrease the number of firms running out of liquidity from 30% to 10%.

Figure 2.12. The impact of policies on liquidity shortfalls



Note: The figure shows the percentage of firms facing liquidity shortfalls: in absence of policy intervention (blue line); in case of deferral of tax (red line); in case of a moratorium on short-term debt (green line); in case of temporary support to wage payments (orange line); a combination of all the previous measures (brown line). Short-term debt is defined as the amount of financial liabilities that are due within the year. The temporary support to wage payments (orange line) is assumed to be: in Panel A, an unconditional reduction of the wage bill by 80% in all sectors; in Panel B, a support adjusted to the sectoral size of the shock and modelled through an increase to 0.8 of the elasticity of wage bill to sales. The calculations are based on the prolonged confinement scenario. The prolonged confinement scenario envisages a sharp drop in activities in each month considered, being agnostic on the length of the confinement and on the transition to normality. Moreover, the decline in output is assumed to be: between 50 and 100% in the most severely hit sectors (see above the text for details); 15% in the other sectors.
Source: OECD calculations based on Orbis® data.

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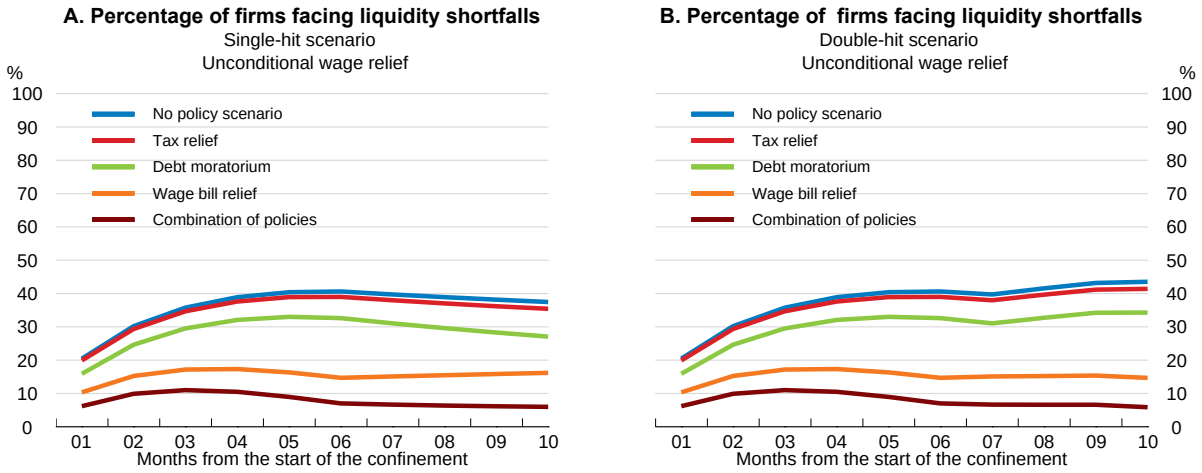
Figure 2.13. Liquidity shortfalls: The impact of policies



Note: The figure shows the percentage of firms facing liquidity shortfalls: in absence of policy intervention (blue line); in case of deferral of tax (red line); in case of a moratorium on short-term debt (green line); in case of temporary support to wage payments, assuming an unconditional reduction of the wage bill by 80% in all sectors (orange line); a combination of all the previous measures (brown line). Short-term debt is defined as the amount of financial liabilities that are due within the year. Panel A assumes a single-hit scenario, whereas Panel B a double-hit scenario. The single-hit scenario foresees a sharp drop in activity lasting two months, followed by a four-month progressive transition towards normality, and a return to pre-crisis activity levels from the seventh month after the start of the epidemic. The double-hit scenario overlaps with the single-hit scenario for the first seven months, but then models a second outbreak from the eight month onwards. The decline in output is assumed to be: between 50 and 100% in the most severely hit sectors (see above the text for details); 15% in the other sectors.
Source: OECD calculations based on Orbis® data.

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These findings emphasise the need for massive public intervention, with support to wage payments emerging as the most critical among the wide range of measures aimed at alleviating liquidity crises, but there are several challenges related to the design of these measures that will need to be addressed in the future. In particular:

- *Country-specific dimensions.* Country-specific institutional settings may shape the extent and the efficiency of the policy response. Given the importance of labour market policies highlighted in the note, it is likely that countries with already well-developed labour market support schemes are able to provide a quick response with less distortive effects.
- *Conditionality.* Certain countries condition loan forbearance and wage subsidies on the actual reduction in payrolls, with the requirement that support is used to cover fixed costs only or to rehire fired employees after the crisis. The design of transfers and subsidised loans to corporations should ensure that firms preserve jobs when possible and do not divert resources toward exclusively private interests (e.g., to boost CEO compensation or dividend payments).
- *Short-term versus medium-term policy answers.* In many cases, given the need for an urgent policy response during the so-called “phase one” of the crisis, policy has not been particularly targeted in the short term. Going forward, short-term, general policies might need to be refined and better targeted to ensure that public support does not contribute to resource misallocation, for instance by propping up unviable firms. Moreover, policies will also need to be refined to deal with the heterogeneous impact of the shock as firms will not be in the same position to face the crisis for reasons other than liquidity when the activity will slightly recover in the medium term.

- *New normal.* The extent to which the COVID-19 crisis will disrupt economies is still uncertain. As the demand for some sectors might decline for a long period, policy design should find a balance between preserving pre-crisis job matches and allowing new matches via job reallocation. Similarly, deferring tax and debt payments will lead to a surge of corporate debt from an already record high level. Therefore, finding a balance between debt forbearance and bankruptcy procedures will be a critical challenge during the recovery.

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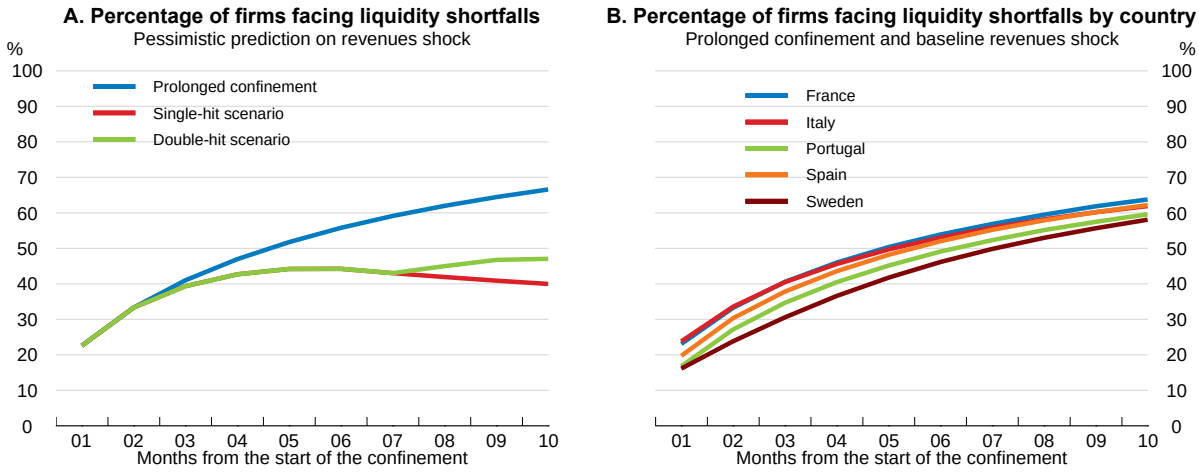
Annex 2.A. Sensitivity test and country-specific results

Annex Figure 2.A.1. Liquidity shortfall assuming a 30% decline in output for non-severely hit sectors and detail by country of the baseline



Note: Panel A shows the percentage of firms facing liquidity shortfalls over the whole sample, under three alternative scenarios: prolonged confinement (blue line), single-hit (red line), and double-hit (green line) scenario. Panel B shows the percentage of firms facing liquidity shortfalls for six countries among those with the best coverage in Orbis® (France, Italy, Portugal, Spain, and Sweden) and assumes the prolonged confinement scenario. The prolonged confinement scenario envisages a sharp drop in activities in each month considered, being agnostic on the length of the confinement and on the transition to normality. The single-hit scenario foresees a sharp drop in activity lasting two months, followed by a four-month progressive transition towards normality, and a return to pre-crisis activity levels from the seventh month after the start of the epidemic. The double-hit scenario overlaps with the single-hit scenario for the first seven months, but then models a second outbreak from the eight month onwards. The decline in output is assumed to be: between 50 and 100% in the most severely hit sectors (see above the text for details); 30% in the other sectors in Panel A, while 15% in Panel B.
Source: OECD calculations based on Orbis® data.

StatLink https://doi.org/10.1787/888934140677

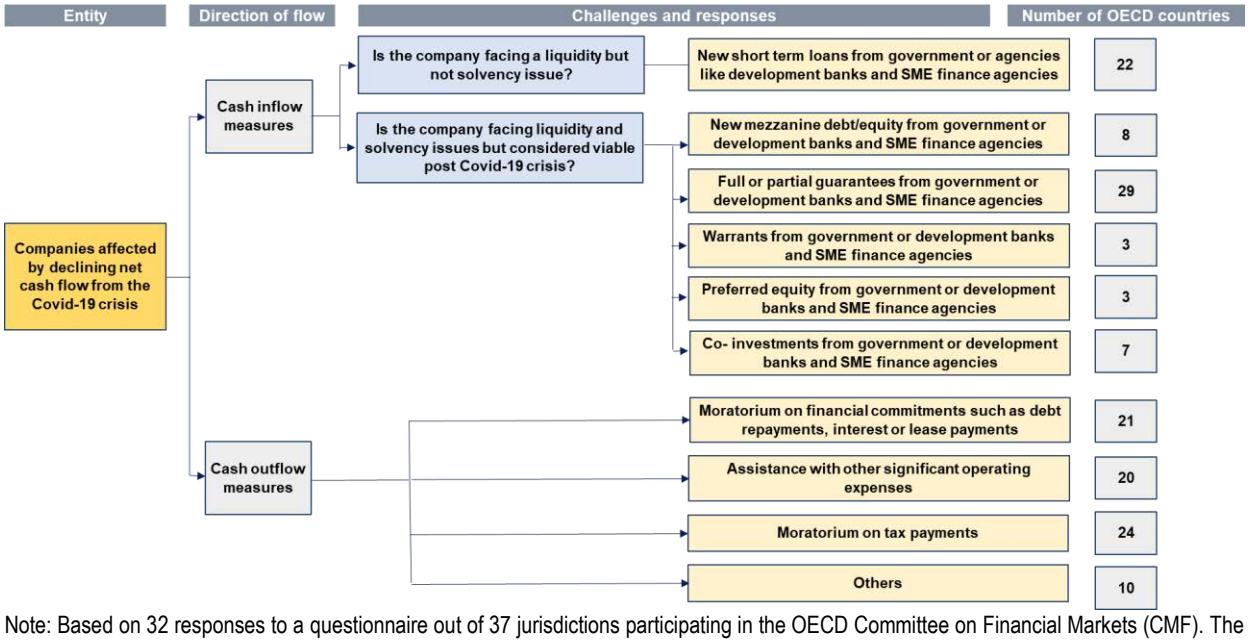
Issue Note 3: Assessment of government crisis programmes to support businesses

Introduction

Amid an extended period of accommodative monetary policy, the very low cost of borrowing has contributed to unprecedented sovereign and corporate debt issuance over the past decade, and also elevated securities market valuations. Prior to the COVID-19 crisis, some equity market valuations were near peak levels, while well over USD 10 trillion of bonds were trading at negative yields. In addition, corporate leverage is elevated, particularly in non-investment grade corporates in advanced and emerging-market economies. Moreover, while the global financial system is stronger due to G20 financial reforms, weak asset quality and anaemic performance of many banking sectors, as well as growing risks in market-based finance, have given rise to emerging vulnerabilities that amplified stress amid the impact of the pandemic. As a result, governments and businesses entered the COVID-19 crisis with very low buffers to guard against shocks.

The economic impact of the global spread of COVID-19 has heightened market risk aversion in ways not seen since the global financial crisis. While sharp declines in equity and credit valuations have partially recovered from the shock, in large part due to unprecedented government stimulus programmes, some parts of the market remain stressed. Consequently, corporate activities have been severely strained by the economic consequences of COVID-19, which have caused business output to decline sharply while cost of financing has spiked. The sudden reduction in economic activity has put severe stress on businesses and on employment, requiring swift and strong government actions.

Figure 2.14. Unprecedented government programmes have been implemented to support business cash-flows



Note: Based on 32 responses to a questionnaire out of 37 jurisdictions participating in the OECD Committee on Financial Markets (CMF). The framework is based on OECD (2020), Global Financial Markets Policy Responses to COVID-19.
Source: OECD.

In response to the economic and market stress in the wake of the pandemic, OECD governments have developed a number of support programmes to provide emergency funding to businesses by addressing strains in cash inflows and outflows (Figure 2.14; Table 2.2). While central banks initially responded by offering short-term liquidity measures, growing awareness of the potential depth and duration of the global crisis prompted many OECD governments to further tailor targeted measures to prevent a wave of insolvencies of fundamentally viable companies, without putting public resources at risk. The aim of widespread and unprecedented support is to preserve employment and investment, which in turn supports a sustainable economic recovery. Yet, have governments of OECD countries done enough in this respect to ensure that businesses have access to reasonably priced capital? The following assessment reviews the design of government programmes to support business cash-flow needs, including an overview of the type of capital used, to evaluate whether the scope broadly addresses the crisis financing needs of business to support future economic growth.

Table 2.2. Government support programmes to businesses

Type	Purpose	Direct vs Indirect[1]	Terms	Examples
Collateral	Expansion of eligible collateral to allow banks to receive additional funding from the central bank.	Indirect	Inclusion of lower-rated collateral in central bank operations. This can be done within collateral frameworks, or through a separate facility with new counterparty and eligibility criteria.	The ECB expanded eligible collateral to include the possibility to accept loans with lower credit quality, loans to other types of debtors, not accepted in the ECB's general framework, and foreign-currency loans.
Credit guarantees	Most OECD jurisdictions provide some form of credit guarantees to businesses to facilitate the lending of banks and other financial intermediaries to businesses.	Direct	Guarantee fees can range from 0.5 to 4% of principal, depending on the percentage of the guarantee and size of the firm. The credit risk is usually assessed by the intermediary.	The guarantee can cover a part or the entire amount of the credit exposure. For example, in France, the guarantee covers a percentage of the loan, depending on the size of the borrower: - 90% for SMEs. - 80% medium companies (above the size of SMEs).[2] - 70% for large companies.
Short-term funding	To provide short-term funding, such as through commercial paper markets.	Direct	Interest rates are generally linked to an index swap plus a small spread (100 to 200 bps), which vary depending on the quality of the asset.	The US Commercial Paper Funding Facility (CPFF), purchases commercial paper of eligible corporates and banks. This helps solvent institutions maintain access to short-term funding at reasonable rates.
Bond purchases	Corporate bond purchases to help stabilise market prices and support liquidity.	Direct and indirect	Purchases are made at market prices and for investment grade securities. A small fee may be charged (100 bps). The maturity varies across jurisdictions, ranging from medium term (4 years) to longer terms. Limits on the share of new issued bonds purchased apply in some countries (from 25 to 70%).	The ECB's Pandemic Emergency Purchase Programme allows the Eurosystem to buy a range of assets, including corporate bonds, and the Corporate Sector Purchase Programme was expanded to non-financial commercial paper. Programmes such as the US Primary Market Corporate Credit Facility and the Bank of England's Corporate Bond Purchase Scheme buy investment-grade corporate bonds to reduce the cost of credit to eligible companies.
Fund purchases	The purchase of traded investment funds, such as equity and bond exchange-traded funds (ETFs), and real estate investment trusts (REITs), to support market prices and liquidity.	Indirect	Purchases are made selectively at market prices. Facilities avoid purchasing shares of ETFs when they trade at prices that exceed the net asset value.	The BOJ and FED purchase shares of ETFs of traded assets such as equity and REITs (BOJ) and bond funds (FED). The Federal Reserve's Secondary Market Corporate Credit Facility purchases shares of bond ETFs of investment grade bonds, and also to some extent high-yield bonds.

Type	Purpose	Direct vs Indirect[1]	Terms	Examples
Lending to corporates	Stimulus includes programmes to lend to corporates. These programmes are most often directed through banks, with provisions to pay for origination and credit assessment.	Mostly indirect	The amount provided is often tied to 2019 business debt levels and leverage. Rates vary from very low spreads, such as 50 basis points, to above 400 basis points where there is a material credit risk. Maturity is generally short, with some possibilities of extension.	Lending programmes are generally carried out through participating financial institutions that have access to central bank lending and government financing. In some cases, loans are provided by national development banks and national funds.
Lending to SMEs	Support programmes include lending and equity through SME agencies, indirect funding through banks that receive loans from government programmes, and facilities for SME securitisation.	Direct and indirect	Rates vary from almost no credit spread, such as 50 basis points, to above 400 basis points where there is a material credit risk. Maturity is generally short, with some possibilities of extension.	SME programmes tend to be provided through existing SME financing mechanisms such as small-business agencies. However, some programmes such as the US Main Street Lending Facilities, and the SME securitisation funding, provide additional reach to businesses with less than 15,000 employees and less than USD 5 bn in revenues.
Equity Investment	Several fiscal authorities have introduced tax credits on capital increases or begun to invest in corporate equity, to large and small businesses, through existing institutions or new vehicles. Many governments are co-investing jointly with private sector actors, while others are using public funds for temporary capital injections.	Direct and indirect	The programmes generally address medium-large sized companies or start-ups and include a 50% co-investment by private actors. Prices paid depend on due diligence of the fiscal authority and/or co-investors. Hybrid instruments can be used as well as preferred equity. Preferred stock often has a relatively high cumulative dividend and a medium-term maturity. The investments are carried out through the national development bank or national fund.	Finland, Germany, Hungary, Ireland; Italy, Latvia, Lithuania, and the Netherlands are among countries that have crisis-related equity programmes. In Lithuania, the equity investment fund will include up to: EUR 100 mln of the state budget, EUR 400 mln for government-guaranteed bonds, and EUR 500 mln from private investors to support medium and large firms. Several other countries are considering such forms of equity investments.

1. Direct programmes are those that either lend or purchase bonds directly from the corporates. Any use of banks or nonbank intermediaries are considered indirect.
2. While definitions vary for the term SME, often the number of staff, such as 250 employees, sets a size boundary. As such, medium sized firms are those that are larger than the SMEs by one or more metrics, but are below the size of national or international corporations.
Source: OECD staff assessment informed by public announcements of government's crisis programmes, and also by responses to a survey of central banks and finance ministries that are represented on the OECD Committee on Financial Markets.

Overview of government programmes to finance businesses

Programme types

Government programmes that seek to provide forms of capital to corporates and small and medium-sized enterprises (SMEs) have a number of design features tailored to meet urgent demand for financing while reducing moral hazard.[1] They include purchases of short-term commercial paper and corporate bonds in primary and secondary markets; purchases of shares of investment funds and exchange-traded funds (ETFs) of corporate bonds. They also include indirect lending through banks, either by providing expanded collateral eligibility that increases banks' ability to borrow from central banks, and indirect and direct lending to firms to ensure viable firms remain liquid until economic and market stability are restored. Many lending programmes – particularly to SMEs – rely on banks to facilitate lending, which require them to take on

[1] Assessment based in part on a survey of government support programmes to businesses, conducted in the OECD Committee on Financial Markets.

additional credit risk. However, some programmes permit banks to retain only a small portion of the loans to limit their credit risk exposure.

Business support programmes, particularly those that include lending, often involve restrictions with respect to firms' cash inflows and outflows. In particular, some programmes restrict firms from paying any dividends or down existing debt, such that borrowing to cover near-term expenses only adds to their overall debt. Also, some restrict firms from reducing employment levels. While these restrictions are important to prevent moral hazard and support employment, the result is that firms' leverage and cost of refinancing debt may increase, which could weaken businesses' financial flexibility to invest in a manner that would sustain an economic recovery.

Lastly, a few government programmes also support business through subordinated instruments, including credit guarantees or forms of equity. Credit guarantees serve to support losses on debt that can help absorb downside risks, and thereby incentivising banks to lend to businesses. Some governments also pursue a strengthening of the capital bases of businesses, in order to provide the latter with greater financial flexibility to reduce cash constraints associated with high interest payments on debt. This can be done through tax benefits on capital increases or through equity investment and co-investment.

Programme eligibility

The design features of these programmes serve to limit the scope to those businesses that need the funding, while striving to protect the government against material loss. The government lending programmes have sought to ensure broad-based availability of loans to corporate issuers and, to some extent, SMEs considered to be fundamentally sound and creditworthy prior to COVID-19 crisis.

Government support programmes to business in the United States and the euro area show that the programmes have been designed to allow the vast majority of investment-grade public corporates to have access to government support. In the United States, tailored facilities to buy bonds and lend to companies through banks provide ample lending. The total amount of lending or bond purchases is only a modest fraction of total outstanding investment-grade debt, in part because the programme terms seek to avoid concentration in any one issuer, and the amount of bond purchasing is meant to stabilise market liquidity and credit spreads through incremental purchases. By contrast, in Europe, corporate bond purchases within the revised programmes cover a large percentage of outstanding tradable corporate debt,[2] and loosening of collateral rules provides ample funding to European banks to pursue corporate lending. However, in both the United States and the euro area, capital constraints and credit risk concerns could limit the extent to which banks wish to lend amid heightened uncertainty over credit conditions. Nevertheless, lending and asset purchase programmes have a positive impact on market confidence, and their incremental contribution to lending or bond purchasing has positive spillover effects with respect to pricing and availability of credit in the markets.

By contrast, businesses that were considered non-investment grade prior to the crisis generally have not benefitted from the programmes in the United States or the euro area.[3] Of approximately USD 4 trillion of

[2] The ECB's Pandemic Emergency Purchase Programme of EUR 1.35 trillion includes a range of public and private sector assets eligible for purchase, and the Corporate Securities Purchasing Programme does not have a pre-defined limit. Purchases have been roughly EUR 3-10 billion per month. For illustrative purposes, the CSPP is shown in the chart as a subset of the PEPP.

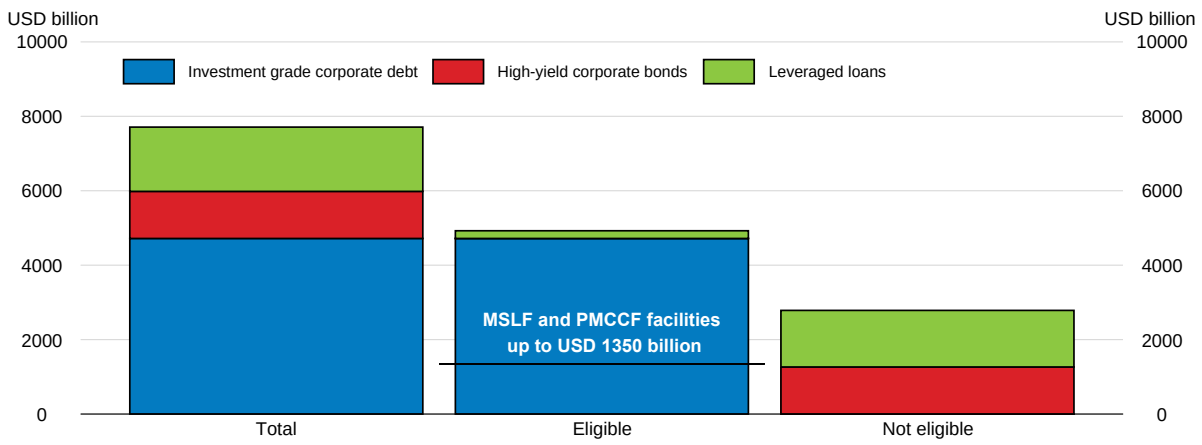
[3] Based on a comprehensive dataset that includes listed non-financial corporates with financial statement information available in Refinitiv at end-2019 (i.e. 1478 US firms and 1878 European firms). Firms are classified based on their eligibility to central bank facilities in keeping with the criteria previously detailed. For the Main Street Lending Facility, calculations have been performed using a leverage ratio of 4.

high-yield rated bonds and leveraged loans outstanding in both economic areas,[4] only a very small amount of issuers of these instruments have been able to benefit directly from government support measures.[5] The reason for this is that such instruments are either rated below investment grade – therefore they do not meet criteria related to creditworthiness such as a Debt/EBITBA ratio below 4; or, they are too large for certain programmes, such as those tailored for SMEs.

The programme constraints render most non-investment grade or non-rated issuance ineligible (Figures 2.15 and 2.16). This is a particularly challenging issue in the United States, where the size of the non-investment grade credit market is nearly USD 3 trillion. There are aspects of potential support. First, a small portion of non-investment grade bonds (estimated at below USD 100 billion) are eligible for purchase in the Federal Reserve's Secondary Markets Corporate Credit Facility through investment funds holding speculative-grade bonds. Also, the Federal Reserve's Main Street Loan Facility provides eligibility to a small amount of firms that meet leverage, size and revenue criteria.

Figure 2.15. US business lending programmes do not extend to all firms in need of liquidity support

Simulation of US corporate credit eligibility for crisis business lending programmes



Note: US corporate debt outstanding includes bonds, loans and revolving credit facilities of non-financial corporates. Outstanding leveraged loan includes revolving credit facilities and are compiled from leveraged loan deals in the United States over 1990-2019 for non-financial companies only. Outstanding corporate bonds refer to non-financial companies only. Data presented are as of end-2019. MSLF is the Federal Reserve's Main Street Lending Facility; PMCCF is the Federal Reserve's Primary Markets Corporate Credit Facility. The Federal Reserve's Secondary Markets Corporate Credit Facility, which is allowed to purchase assets including shares of bond funds is not represented, as it is the same overall budget envelop, yet it can also purchase a small but undetermined amount of Exchange Traded Funds holding high-yield debt.
Source: S&P (2019), U.S. Corporate Debt Market: The State of Play In 2019; FSB (2019), Vulnerabilities associated with leveraged loans and collateralised loan obligations; OECD (2020), *Corporate Bond Market Trends, Emerging Risks and Monetary Policy*, OECD Publishing, Paris; OECD (2020), *Structural Developments in Global Financial Intermediation*, OECD Publishing, Paris; Refinitiv; and OECD calculations.

StatLink https://doi.org/10.1787/888934140696

[4] Estimates are based on S&P (2019), U.S. Corporate Debt Market: The State of Play In 2019; OECD (2020), Corporate Bond Market Trends, Emerging Risks and Monetary Policy; and OECD (2020), Structural Developments in Global Financial Intermediation.

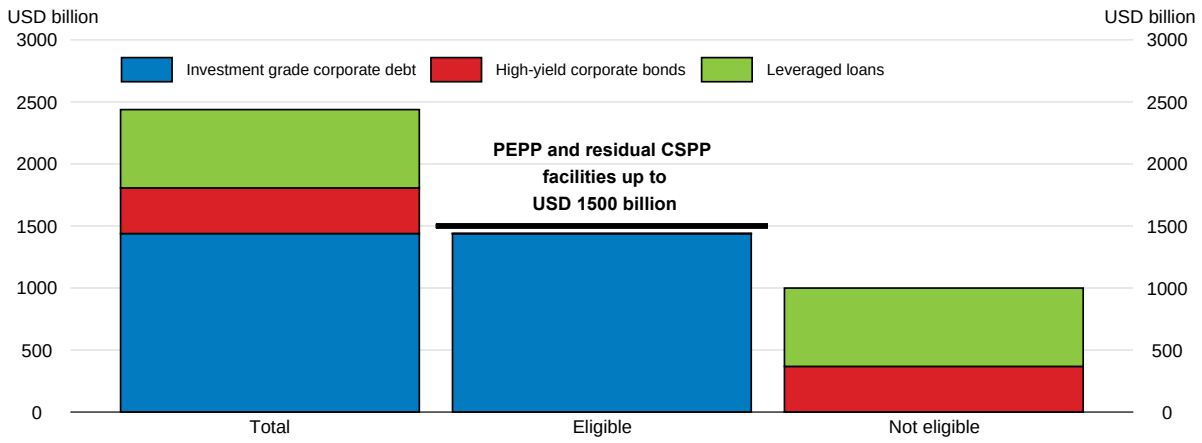
[5] One exception would be the Main Street Lending Facility, which states that lending could be provided to firms that have up to 6 times leverage, by Debt/EBITDA, and which could lend to firms that had revenues of below USD 5 billion or staff below 15,000. This would have captured a much larger subset of non-investment grade firms. However, the programme has not been operationalised so far.

However, the reach of the lending programmes would expand considerably should the Main Street Expanded Loan Facility become operational, as the majority of firms that meet the higher Debt/EBITDA target would also meet revenue and employee level requirements.[6] Distributing the loans through banks helps ensure that banks are conducting appropriate credit risk analysis, as they would need to retain 5-15% of the credit exposure. Yet, because of this obligation, they may be reluctant to lend during challenging credit conditions, in particular if they perceive that the appropriate yield to cover credit losses would exceed the programme cap on lending rates. At this time, the current strains in the high yield credit markets suggest that concerns over credit and market liquidity risk remain a genuine concern.

These findings suggest that despite unprecedented efforts by governments, high-yield corporates in industries such as airlines, energy, and consumer cyclicals, have yet to receive substantial support in many OECD countries. This poses a challenge because high-yield corporates have grown considerably over the past several decades and are essential to corporate growth and employment.

Figure 2.16. Euro area business lending programmes do not extend to all firms in need of liquidity support

Simulation of euro area corporate credit eligibility for crisis business lending programmes



Note: Outstanding leveraged loans include revolving credit facilities and are compiled from leveraged loan deals in the euro area over 1990-2019 for non-financial companies only. Outstanding corporate bonds are calculated including non-financial companies only. Data presented are as of end-2019. PEPP is the ECB's Pandemic Emergency Purchase Programme, and the CSPP is the ECB's Corporate Securities Purchase Programme. While investment-grade corporate bonds are eligible to be purchased by the PEPP, to date most of the purchases have been public sector securities

Source: OECD (2020), *Corporate Bond Market Trends, Emerging Risks and Monetary Policy*; OECD Publishing, Paris; OECD (2020), *Structural Developments in Global Financial Intermediation*; OECD Publishing, Paris; Refinitiv; and OECD calculations.

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[6] As documented by FSB (2019) vulnerabilities associated with leveraged loans and collateralised loan obligations; a portion of leveraged loan issuers maybe be eligible to the Main Street Lending Facility as their ratio of debt-to-EBITDA is lower than the 4 or 6 requirements (i.e., 15% of leveraged loan issuers have a leverage ratio lower than 4 and 65% a leverage ratio lower than 6). Nevertheless, they also need to meet revenue and number of employees criteria to be eligible for this programme. Internal estimates, using a comprehensive dataset that includes listed US non-financial corporates, show that 80% of leveraged firms potentially eligible to the Main Street Lending Facility would also meet the revenue and number of employee criteria.

Government lending programmes to high-yield corporate issuers

As government responses, while unprecedented in many OECD countries, have mostly excluded highly-leveraged issuers, such firms are likely to continue to struggle from the impact of refinancing in stressed market conditions. The majority of these firms, while viable during normal economic and market conditions, are at a higher risk of missing debt payments during recessions and prolonged credit market stress. The amount of corporates at risk of distress and default could be much higher, should stressed credit spreads and weaker cash-flows from operations persist over an extended period. If this were to occur, a spike in bankruptcies could cause non-performing credit exposures to weigh heavily on the balance sheets of banks, insurers and pension funds, consequently eroding their capacity to lend to higher-risk corporates.[7] Indeed, OECD analysis shows that under current circumstances, the percentage of "at risk" or distressed firms would rise considerably, to over 70% of high-yield corporates in the United States, and over 40% in Europe (Figure 2.17).[8] Corporate efforts to reduce cash outflows – or the need for restructuring – could have a devastating effect on employment, and would undermine authorities' efforts to restore market and business confidence needed to spur economic recovery. Moreover, rising defaults on debt and bank loans would contribute to imposing losses on banks, insurers and pension funds, which are leveraged and capital constrained. Such losses could undermine their willingness and capacity to intermediate new credit to support the recovery.

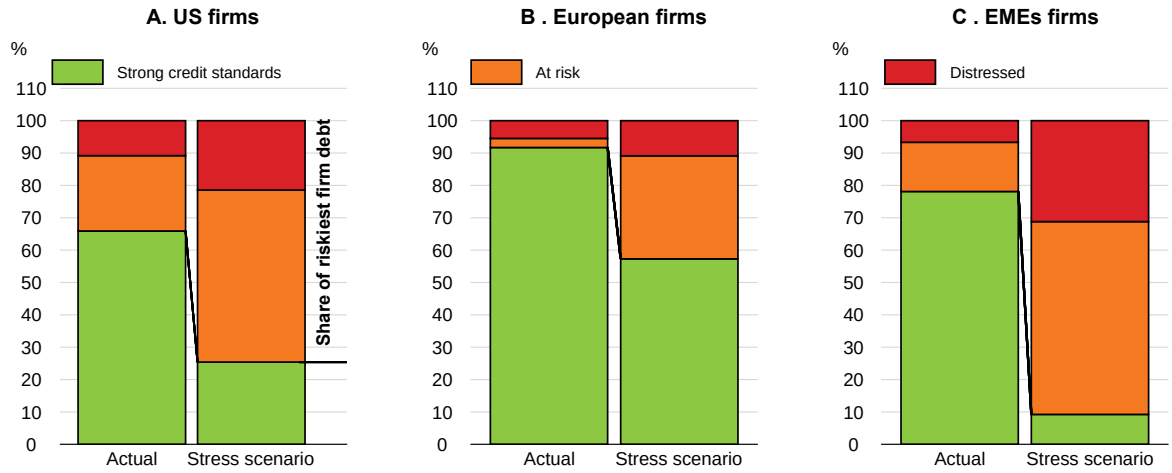
In light of this assessment, the perceived reluctance of governments to lend to high-yield issuers merits further consideration. One key reason is that governments do not wish to accept credit risk of domestic businesses, as this could have legal or reputational consequences. While arguably reasonable under normal circumstances, it may result in market stress, higher unemployment, and a more fragile economic recovery at present. Rating agency studies of peak and average losses help illustrate the extent to which corporate credit risk is relatively predictable, even in periods of stress, and thus manageable by appropriate pricing of credit risk. The peak 1-year probability of default and loss experience of BB-rated issuers is relatively closer to that of the BBB than B categories, suggesting that the credit difference between investment grade and non-investment grade credit – delineated between a BBB- and BB+ rating – is not notably different than default probabilities between BB and B rated issuers (Table 2.3). In this context, if governments wish to ensure they lend only to viable firms, survival rates of both BBB and BB-rated firms are above 99% under normal conditions. To set a reasonable standard of viability, governments might set a 95% confidence rate which would allow the inclusion of better-quality B-rated firms. Also, modelled losses based on a 50% stressed loss-given-default suggest that annual losses would be below 7% even in the single-B-rated category, and facilities could easily set a borrowing price commensurate with such risks. In sum, fiscal authorities and central banks could calibrate programme pricing accordingly to include a sizeable portion of viable non-investment grade debt, based on decades of credit history of business survival probabilities.

[7] This potential constraint is particular to supervised institutions, particularly those that have to adhere to standards of regulatory capital or other measures of solvency. By contrast, other investors such as hedge funds or private equity might find value opportunities during markets in which credit risk is mispriced.

[8] A firm is considered "at risk" if its interest coverage ratio (ICR) is between 1 and 2; which means the firm has operating cash-flow to cover debt interest payments, but the excess cash is limited. A company is qualified as "distressed" if its ICR is lower than 1, which means the firm does not have enough operating cash-flow to cover its interest expenses.

Figure 2.17. The share of distressed firms could rise considerably

Distribution of leveraged firms



Note: These figures show the share of debt of firms with strong credit standards, "at risk" and "distressed" in total debt of leveraged equivalent corporates under normal and stress scenarios by region. The sample includes 8361 "leveraged equivalent corporates", i.e. companies with a leverage ratio higher than 5 or with a negative leverage ratio. A firm is considered "at risk" if its interest coverage ratio (ICR) is between 1 and 2. A company is qualified as "distressed" if its ICR is lower than 1. A stress testing analysis is performed on corporate debt assuming a 650-basis point increase in the cost of debt in borrowing costs for the portion of debt (equivalent to 50% of total debt) maturing within the next three years and a 20% fall in EBITDA. The ICR under the stress scenario is calculated for each company so that firms are re-classified according to their financial soundness possibly falling to "at risk" or "distressed" groups.
Source: OECD calculations.

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Table 2.3. Stylised mapping of corporate credit ratings, defaults and pricing of risk

Rating	Default 1-year Average	Default 1-year Peak	Stressed Loss –Given-Default[1]	1-year Peak Loss	Breakeven Credit Spread[2]
BBB	0.2%	1.0%	50.0%	0.5%	0.6%
BB	0.6%	4.2%	50.0%	2.1%	2.2%
B	3.3%	13.8%	50.0%	6.9%	8.0%
CCC	27.1%	49.5%	50.0%	24.7%	48.8%

Note: One-year trends from S&P (2020), "Default, Transition, and Recovery: 2019 Annual Global Corporate Default and Rating Transition Study." Breakeven columns are calculations based entirely on these figures.
1. The stressed loss-given-default (LGD) rate of 50% reflects a 1-percentage point add-on to a modelled 40% LGD associated with a 8% default rate. Financial studies suggest that LGDs vary widely by industry, are positively correlated with default rates, and are positively correlated with the firm leverage and debt structure. Therefore, the 50% rate here provides a blended stress rate for illustration purposes. See Frye et al. (2013), "Loss given default as a function of the default rate", Federal Reserve Bank of Chicago.
2. The breakeven credit spread is the rate that provides the return of par, with no gains or loss to the initial investment. It assumes no interest is paid out on the defaulting debt. The simplified formula is: Breakeven Credit Spread = Default Probability * Loss Given Default/(1-Default Probability). Should a government wish to ensure at least a return of the risk free rate on surviving firms, this spread should be added to the risk free rate.
Source: S&P (2020), "Default, Transition, and Recovery: 2019 Annual Global Corporate Default and Rating Transition Study"; and OECD calculations of breakeven rates.

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Should governments consider developing business support programmes to assist high-yield issuers, they might consider several factors to effectively manage aspects of the programme related to credit. First, governments should determine and set criteria for what is considered a fundamentally viable firm based in large part on pre-crisis solvency metrics. Criteria could include ratings, and pre-set rating minimums, such as a minimum rating of B or B+, or minimum leverage or interest coverage ratios. Programmes that lend to high-yield issuers would need to be able to conduct sufficient credit assessment and independently verify the ratings of major ratings providers. Second, where the credit risk is considerable, programmes should have tiered pricing per rating to ensure that losses can be covered by programme rates and associated fees. Rates should be linked to the central bank or interbank borrowing rate (e.g. a standard rate plus a credit spread) so that firms are not able to benefit from a fixed rate when central bank interest rates are raised. Third, governments should consider ways to help the high-yield corporate sector transition to a solid footing when the government exits the programme. In the event that a portion of borrowers must exit government with higher debt and leverage, and with the prospect of refinancing debt at higher costs than that offered by the government programmes, firms would be more likely to experience cash-flow constraints. The extent to which highly leveraged businesses might experience financial distress would depend on the economic strength of the recovery to support cash inflows, and buoyant credit market conditions to facilitate continued borrowing at pre-crisis credit spreads.

Equity investment could help spur the recovery

Governments could consider whether there are other ways to support corporates without incentivising higher indebtedness, which could complicate the exit of extraordinary monetary and fiscal stimulus and jeopardise a sustainable recovery. In this context, fiscal authorities could consider equity investments in viable corporates to provide them with needed cash without creating immediate interest payment obligations. As the majority of B-rated firms have private equity ownership, the government could consider incentives for co-investing with private equity and venture capital, which would give some assurance that motivated parties are conducting due diligence. For existing equity holders, the trade-off would be to acquiesce to lower equity returns as the cost of reducing the probability that the corporate would enter into bankruptcy, which would eliminate equity value.

However, to date, only a few jurisdictions have initiated government support programmes for business that include equity capital, which is critical to help ensure financial flexibility to support robust economic recoveries. OECD analysis suggests that the use of retractable preferred equity could provide the much needed financial flexibility to absorb sharply falling operating cash-flows and avoid distress, thereby allowing firms to grow and invest into the recovery. Governments could consider using a form of retractable preferred equity that has several key design features. The dividends would be flexible to allow repayment toward the end of the programme duration. However, participating businesses would only be allowed to pay common equity dividends once preferred dividends are paid in full. Moreover, the retractable feature of the equity would stipulate that the firms would need to repay the government holder at a fixed price (such as par) at the end of a designated maturity date, much like debt. At that time, the firm could choose to issue equity (preferred or common) or debt to repay the government, depending on its leverage and cash situation. This retractable form removes the significant market risk associated with price fluctuations of publicly traded equity, and also the liquidity risk associated with the sale of preferred stock. In essence, the government would trade the upside price returns for greatly reducing the downside risk of a loss.

Importantly, preferred equity support can reduce government exposure to a loss in certain scenarios,[9] by reducing leverage and improving interest coverage in participating firms. If the share of firms in distress (likely to result in default and bankruptcy)[10] remains below a certain threshold of total firms in the government programme (known as the breakeven threshold), the government could expect a higher return on investment from the preferred equity contribution compared to a debt contribution (Figure 2.18, Panel A). For example, should a significantly lower share of firms be in distress at the end of the government support programme, the expected return on investment for the equity contribution would be significantly higher than that of a debt contribution.[11] In addition, given excessive corporate leverage in the financial sector in many OECD countries, incentivising equity investment can also help reduce the leverage position of firms. In contrast, debt financed support increases leverage and interest payments, and erodes financial flexibility and the resilience needed to emerge from the crisis. For example, in the event of an anaemic economic recovery, with greater than expected firms being in distress at the end of the government support programme,[12] the government could expect to almost break even on its investment, such that material fiscal losses would not occur. Also, the average debt-to-EBITDA multiple of firms improve more significantly when a preferred equity contribution is used (Figure 2.18, Panel B), in contrast to firms' higher leverage upon exit for the debt lending programmes.

This approach has several benefits. While equity is lower than debt in the capital structure and prone to higher losses after default, the use of equity rather than debt would reduce leverage and thus the probability of default. Should equity be used to replace maturing debt, it could prompt an increase in the credit rating, which would result in a lower future cost of borrowing and more cash available for reinvestment. If the government could partner with other equity investors – including private equity – to reduce leverage, it would both bring needed expertise to the investment process, and would help reduce leverage further for the same amount of government participation. Moreover, as private equity holders would not be able to receive any dividends or sell their stake before the government is repaid, there is an incentive to run companies prudently to preserve cash-flow.

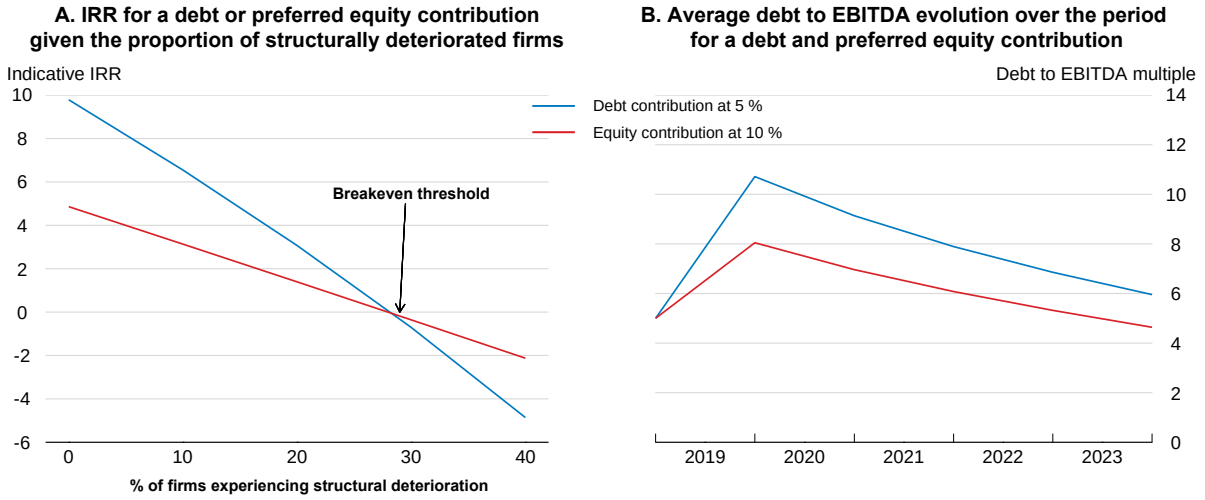
[9] A higher return on investment /Internal Rate of Return (IRR) more than compensates for losses on investments in distressed firms. Simulation analysis has been used to estimate expected government returns (positive, breakeven, negative) in various recovery and capital structure scenarios. Based on an assumed USD 1.25 million debt or equity contribution to participating firms. Other key assumptions are a 5% interest rate and a 4-year linear principal amortisation for the debt contribution, and a 10% dividend yield and exit after four years (2024) for the preferred equity contribution. Additional assumptions include a 20% corporate tax rate, existing outstanding debt estimated at varying rates of 6%, 8% and 10% depending on the prior capital structure of the firm, and 10% EBITDA capex with 10% annual growth in the event that the firm has sufficient free cash-flow.

[10] Firms experiencing high-distress and structural deterioration are expected to exhibit a 75% shock to 2019 EBITDA in the first year, with a haircut of 50% to long term EBITDA. Fewer than 30% of programme firms experience financial distress resulting in bankruptcy in the OECD simulation analysis.

[11] In the OECD simulation, should only 10% of firms experience high-distress/structural deterioration, the expected government Internal Rate of Return (IRR) would be 6.5% for the preferred equity contribution portfolio versus 3.1% for the debt contribution portfolio.

[12] In the OECD simulation, this is measured as above 30% of firms experiencing distress and structural deterioration leading to bankruptcy.

Figure 2.18. Preferred equity support can reduce government exposure to loss and reduce business leverage



Note: Indicative simulation, not based on current industry information. IRR is the internal rate of return. EBITDA is earnings before interest, taxes, depreciation, and amortisation.
Source: OECD calculations.

StatLink https://doi.org/10.1787/888934140753

Should this path be chosen, fiscal authorities would need to be mindful of how their equity investments would impact industry competition, both during the investment period and upon exit. First, large-scale equity investment in businesses (e.g. explicit strategic investment or nationalisation) could distort governance practices and have consequences for a level playing field. At the same time, during this crisis period, corporates with high cash levels are increasingly engaging in mergers and acquisitions of businesses with temporary cash-flow shortages due to the impact of the responses to the pandemic. In concentrated markets, government equity programmes could reduce the pressures for companies to be taken over by industry giants, which could preserve competition.[13] Moreover, should government business financing programmes not integrate environmental, social and governance and responsible business conduct into their criteria, they might hinder the progress made in many countries through greater investor demand for environmental, social and governance considerations toward sustainable finance. As such, OECD principles for corporate governance, competition, and responsible business conduct could help shape constructive behaviours during this exceptional period of government involvement, to support competitive markets as businesses exit temporary programmes.

As well, despite well-constructed lending programmes, fiscal authorities could risk losses if corporate defaults were to rise well above prior historical peaks due to a severe and prolonged recession. In such an event, it is possible that equity investments could lose more than debt investments due to lower recovery rates in bankruptcy. However, in such a scenario, governments would need to consider not how to minimise losses on crisis programmes, but rather if it is better to invest in equity to keep businesses open rather than having to pay higher amounts of unemployment benefits, grants, and other outflows to address the consequences of high business failures on societies.

[13] See link to OECD Competition's Covid-19 Policy Papers.

Issue Note 4: Distributional risks associated with non-standard work: Stylised facts and policy considerations

This note provides estimates of the share of non-standard workers that are particularly vulnerable to the loss of income or job as a result of the widespread shutdown in economic activity due to COVID-19 containment measures. The focus is on non-standard workers, given that they often have less access to social protection and to job retention schemes than regular workers. The changing nature of work has been associated with a gradual increase over time in the share of non-standard forms of employment. The note discusses what policies can do, and what policy actions governments have taken, to support vulnerable workers during the COVID-19 crisis.[1] The key messages are summarised in Box 2.4.

Box 2.4. Key messages

- On average across OECD countries, the sectors thought most likely to be directly affected by COVID-19 containment measures account for around 40% of total employment. These sectors employ a large proportion of so-called non-standard workers, i.e. part-time workers, self-employed and workers hired on fixed-term contracts. They account for around 40% of employment on average across OECD European countries, reaching more than 50% in Italy, the Netherlands, Spain and Greece. This proportion is generally highest in entertainment activities, hotels and restaurants.
- In many countries, non-standard workers have less access to social protection compared to full-time employees with open-ended contracts. Social protection gaps can be large for the self-employed, who are often not covered by sickness and unemployment benefits. Relative to permanent employees, temporary workers face a higher risk of losing their job and have lower chances of being enrolled in short-time work schemes. Although difficult to quantify, workers in the informal economy are even more at risk than other workers are in event of sickness or job loss.
- Policy action is needed to protect non-standard workers against the adverse effects of falling sick and to provide income support to those who lose their jobs and incomes. This requires addressing at least temporarily social protection gaps between standard and non-standard workers, as well as targeting interventions on those most likely to be affected by the crisis, such as small entrepreneurs in the most affected sectors, low-income and informal workers.
- OECD countries have taken action to support non-standard workers during the COVID-19 crisis:
  - About half of the OECD countries have exceptionally expanded, or eased access to, paid sick leave and the majority of them have introduced or enhanced access to unemployment benefits for non-standard employees.
  - Some countries have included temporary employees in short-time work schemes.

[1] This note is based on OECD (2020a).

- Almost all OECD countries have taken action to support the activity of small and medium-sized enterprises, and several countries have introduced temporary income replacement schemes to support the self-employed who experience severe income losses. Some countries have provided additional fiscal and credit support targeted at small firms operating in hard-hit sectors, such as tourism.

- Policy action should prevent crisis-related adverse distributional effects from becoming long lasting. The smooth reallocation and matching between workers and jobs requires effective active labour market policies and requalification schemes, targeted to those who need them the most, in combination with adequate income support to sustain job search.
- Looking forward, countries should consider enhancing social protection schemes for non-standard workers. Reforms in this area would reduce labour market segmentation and inequalities.

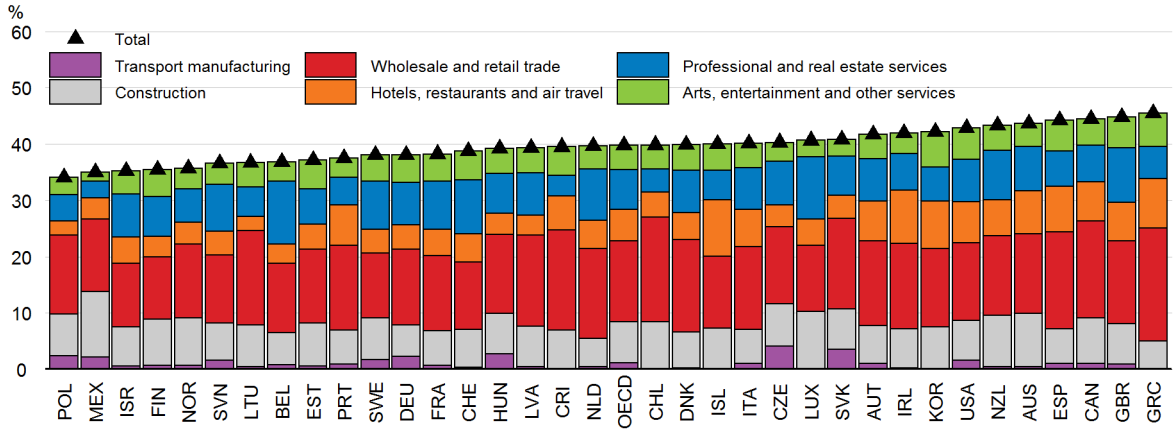
The big picture: employment in sectors most affected by containment measures

The spread of the COVID-19 virus across countries has prompted many governments to introduce unprecedented measures to contain the pandemic. These have led to many economic activities being shut down temporarily, implying a large contraction in GDP, even though quantification is extremely difficult in the current juncture (Chapter 2, Issue Note 1). The most affected sectors are principally services, such as tourism, and those involving contact between consumers and service providers, such as restaurants and entertainment activities, as well as construction in some countries. With perhaps the sole exception of construction, these are sectors where activity is likely to remain affected for quite some time even as economies slowly recover from widespread shutdowns. Containment measures create massive disruption in the labour market, with around 40% of workers directly exposed (Figure 2.19), not taking into account indirect effects through input-output linkages and global value chains.

The calculations are based on an assumption of a nation-wide shutdown, rather than a shutdown confined to particular regions only. In all countries, full shutdowns are assumed in all the output categories directly affected by containment measures. This is why the calculations and figures are based on total employment in the affected sectors, not some proportion of total employment according to the share assumed to be shut down. These are assumptions and the actual situation and labour market effects are likely to vary from one country to the next, depending on the containment measures and job retention schemes adopted.

Figure 2.19. Employment in activities most affected by containment measures across OECD countries

% of total employment, 2018 or latest available year



Note: The sectors included follow the analysis in Chapter 2, Issue Note 1. Data are classified according to ISIC rev. 4. The sectors considered are manufacturing of transport equipment (ISIC V29-30), construction (VF), wholesale and retail trade (VG), air transport (V51), accommodation and food services (VI), real estate services (VL), professional service activities (VM), arts, entertainment and recreation (VR), and other service activities (VS). The latter two sectors are grouped together as arts, entertainment and other services in the figure. The OECD average is an unweighted average across countries.
Source: OECD Annual National Accounts; and OECD calculations.

StatLink https://doi.org/10.1787/888934140772

The rest of the note focuses on distributional implications by identifying the workers within the sectors assumed to be affected by containment measures who face higher risks of losing their job and income, falling sick, and experiencing poverty. The analysis focuses on non-standard workers, i.e. part-time workers, self-employed and workers hired on fixed-term contracts. Such workers are more vulnerable to adverse distributional effects from the COVID-19 crisis, because they may lack adequate income and employment protection. In fact, non-standard workers are 40-50% less likely to receive any form of income support during periods out-of-work than standard employees, and when they do receive benefits they are often significantly less generous than for standard employees (OECD, 2019).

Vulnerable workers in sectors affected most severely by containment measures

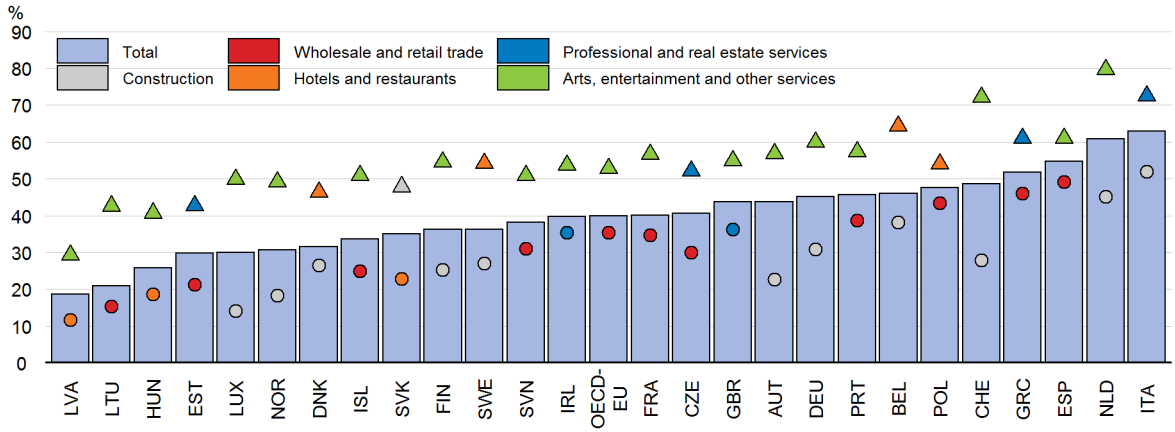
How many non-standard workers are there?

Non-standard workers are defined as follows: i) workers under temporary contracts; ii) part-time workers; and iii) self-employed workers.

- On average across European OECD countries, non-standard workers represent around 40% of total employment in sectors most affected by containment measures, ranging from about 20% in Latvia and Lithuania to more than 50% in Italy, the Netherlands, Spain and Greece (Figure 2.20).

Figure 2.20. Non-standard workers in activities most affected by containment measures across European OECD countries

% of employment in respective sectors, 2018



Note: Non-standard workers are defined as workers in temporary contracts, in part-time jobs, and the self-employed. The blue bars show the average share of non-standard workers in total employment across the affected sectors. The triangles (circles) show the maximum (minimum) share among the sectors considered. The inner colour follows the legend showing which sectors have the highest/lowest share of non-standard workers. The sectoral data are classified according to ISIC rev. 4. The sectors included are construction (VF), wholesale and retail trade (VG), accommodation and food services (VI), real estate services (VL), professional service activities (VM), arts, entertainment and recreation (VR), and other service activities (VS). The latter two are grouped together as arts, entertainment and other services in the figure. Other services include categories not included in other service sectors, such as the repair of computers and personal and household goods. The analysis is restricted to European OECD countries for which harmonised micro-level labour force surveys are available.
Source: OECD calculations based on EULFS data.

StatLink https://doi.org/10.1787/888934140791

- In the majority of countries, the share of non-standard workers is highest in entertainment and arts, although in some countries (e.g. Sweden, Denmark, Poland and Belgium) the share is highest in hotels and restaurants. Wholesale and retail trade, as well as construction, typically account for the lowest share of non-standard workers.

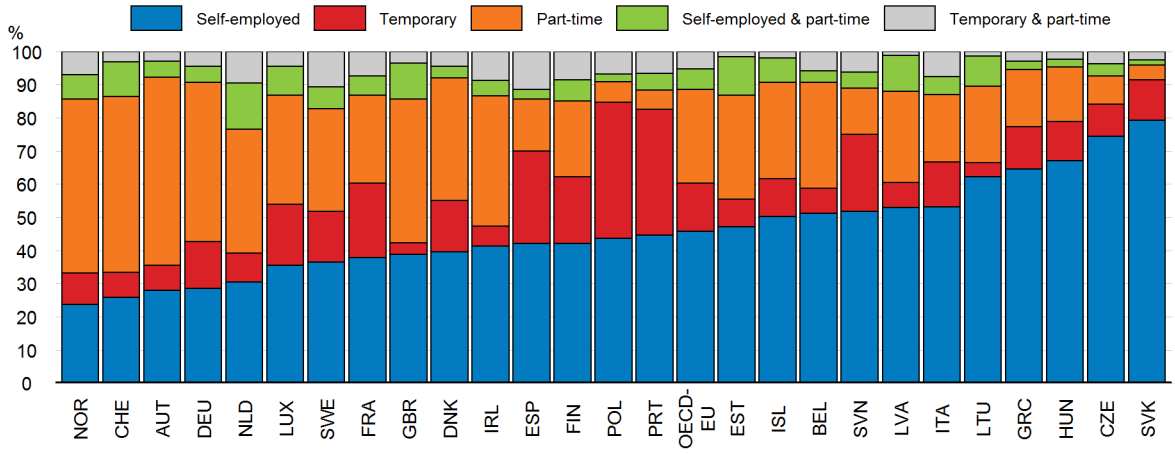
Although non-standard workers in affected sectors account for a sizeable share of total employment in many countries, the share of non-standard workers is likely to be under-estimated due to a lack of information on informal work, with some Southern European countries having relatively high estimated shares of informal work (ILO, 2018).

There are major differences in the type of non-standard work across European countries (Figure 2.21):

- On average and for the majority of European countries, self-employed workers represent the most important category of non-standard workers in affected sectors. They account for around a quarter of non-standard employment in Norway, Switzerland, Austria and Germany to more than one-half in most Eastern and Southern European countries, Latvia and Lithuania.
- Part-time work, defined as persons usually working less than 35 hours a week, is the second most important category in most countries. Part-time work is particularly common in Switzerland, Austria and the Netherlands, while it tends to be less frequent in the Slovak Republic, the Czech Republic and Poland.
- Temporary employment represents around 15% of non-standard work on average, but with large cross-country differences: ranging from less than 4% of non-standard employment in the United Kingdom and Ireland to around 40% in Poland and Portugal.

Figure 2.21. Composition of non-standard workers in activities most affected by containment measures across European OECD countries

% of non-standard employment in affected sectors, 2018



Note: See Figure 2.20 for the definition of sectors included.
Source: OECD calculations based on EULFS data

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Going granular to identify vulnerable workers

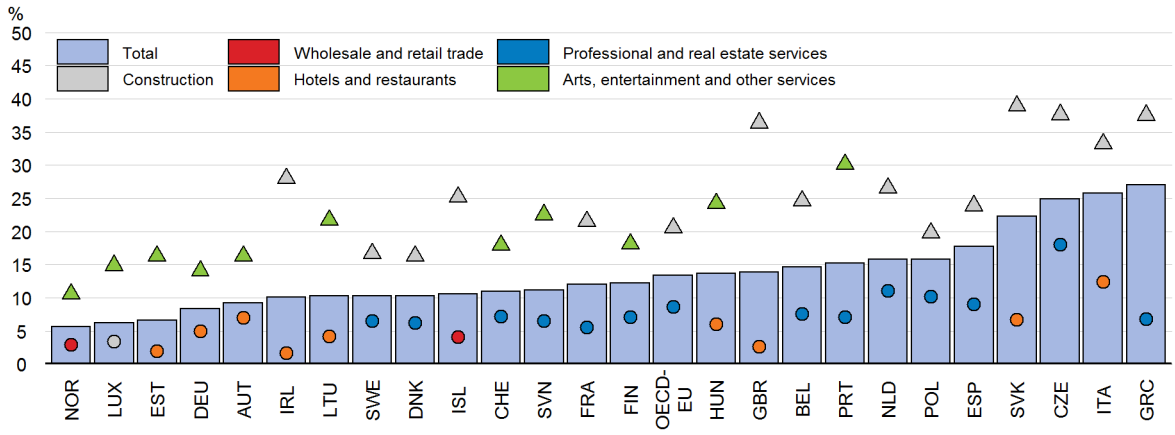
Small entrepreneurs

Non-standard workers all face common risks associated with the labour market disruption due to the COVID-19 crisis, because they are often less well protected against the risk of job or income loss than standard workers. However, some non-standard workers are particularly vulnerable. Small entrepreneurs affected by containment measures may be particularly at risk due to often-limited access to social protection and also business risks from shutdown restrictions and/or a temporary lack of liquidity (Chapter 2, Issue Note 2).

- On average across European countries, small entrepreneurs represent around 14% of employment in affected sectors, varying from less than 7% in Luxembourg and Norway to more than 25% in Greece and Italy (Figure 2.22).
- In most countries, the proportion of small entrepreneurs is highest in the construction sector and relatively low in the professional and real estate services sectors.

Figure 2.22. Proportion of small entrepreneurs in activities most affected by containment measures across European OECD countries

% of employment in respective sectors, 2018



Note: Small entrepreneurs are defined by Eurostat as self-employed without managerial roles, for example own-account workers in the construction sector. The blue bars show the average share in total employment across the affected sectors. The triangles (circles) show the maximum (minimum) share among the sectors considered. The inner colour follows the legend and shows which sectors have the highest/lowest share of small entrepreneurs. For the definition of sectors included, see Figure 2.20.
Source: Calculations based on EULFS data.

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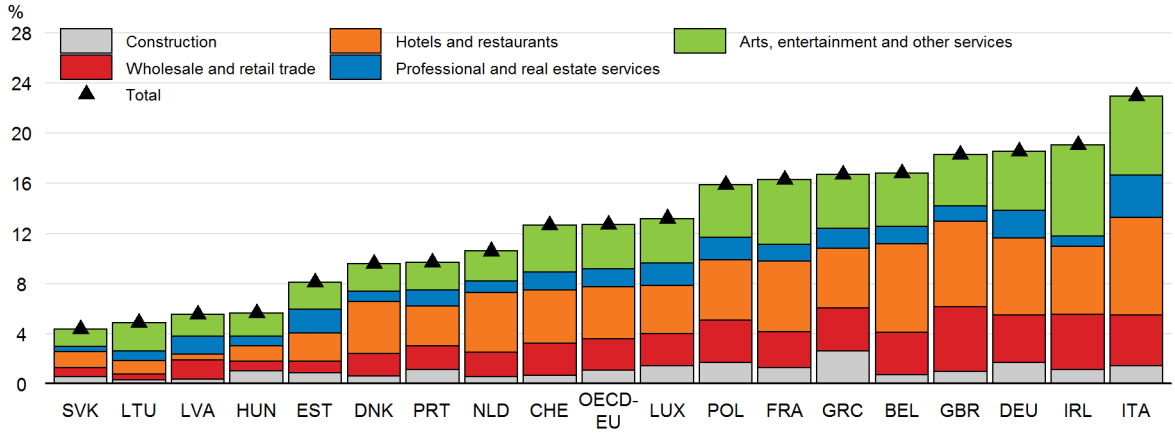
Low-wage non-standard employees

Non-standard employees in low-paid jobs are especially at risk of income loss due to the COVID-19 crisis. These workers may work only occasionally or irregularly, sometimes failing to meet the hours or income threshold requirements to access work-related benefits. Tight access conditions to social protection and low benefit replacement rates weigh relatively more on living standards at the bottom of the wage distribution.

- Low-wage non-standard employees represent on average around 12% of dependent employment in affected sectors, with low-wage workers representing almost 25% of all employees in Italy and close to 20% in Germany, Ireland and the United Kingdom. In the case of Germany, the high share of low-wage employees may partially reflect the prevalence of “Mini-Jobs”, which are jobs generally free from social insurance contributions for workers (Figure 2.23).
- Baltic and Eastern European countries (except Poland) have a lower incidence of low-wage non-standard employees in affected sectors. However, the share of vulnerable employees could be under-estimated due to a relatively high level of informal workers not captured by the available data.
- The proportion of low-wage non-standard employees is highest in hotels and restaurants, and lowest in construction.

Figure 2.23. Proportion of low-wage non-standard employees in activities most affected by containment measures across European OECD countries

% of dependent employment in respective sectors, 2018



Note: Low wage non-standard employees are those in the first quintile of the employees' wage distribution.
Source: OECD calculations based on EULFS data.

StatLink https://doi.org/10.1787/888934140848

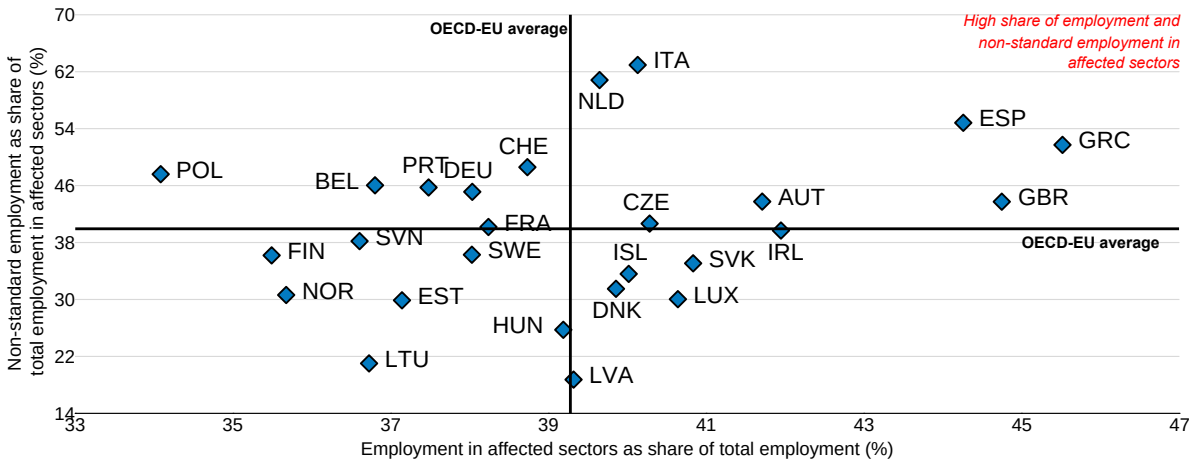
Countries' exposure to distributional risks associated with non-standard work

Figure 2.24 illustrates countries' relative exposure to distributional risks due to non-standard work, comparing the share of total employment affected by the COVID-19 lockdown with the share of non-standard employment in affected sectors. Southern European countries (with the exception of Portugal) are particularly exposed to distributional risks from containment measures: they have larger than average shares of both total employment and non-standard employment in the sectors assumed to be most affected by containment measures, and they also have a large proportion of informal employment (ILO, 2018). Nordic countries in the lower-left quadrant appear relatively less exposed, while other European countries fall between these two groups, having a relatively large share of low-wage non-standard employees (e.g. Germany) and involuntary part-time work (France). Eastern European countries do not appear among the most exposed from the perspective of total non-standard employment, but they have a large share of small entrepreneurs (Figure 2.22).

Policy challenges to support non-standard workers during the COVID-19 crisis

Various forms of non-standard work account for a sizeable part of employment in the sectors most affected by COVID-19 containment measures. There are major differences across European countries even though there tends to be a relatively large proportion of self-employed workers in the most affected sectors. This category of non-standard workers has the weakest access to social protection (OECD, 2020b; Table 2.4). Compulsory sickness insurance for the self-employed is available in 12 European OECD countries, although in some counties (e.g. Portugal and Slovenia) these workers are less protected compared to standard workers because of stricter access conditions. The self-employed have generally no access to paid sick leave or to unemployment benefits in Italy and the United States. Access to sick leave is on a voluntary basis in Poland, the Netherlands and the Czech Republic.

Figure 2.24. Total employment and non-standard employment in activities most affected by containment measures across European OECD countries



Note: see previous figures.
Source: OECD Annual National Accounts; EULFS Database; and OECD calculations.

StatLink https://doi.org/10.1787/888934140867

More generally, social protection systems are weaker for all categories of non-standard workers compared to standard workers. There is a significant gap between standard and non-standard workers in the probability of receiving income support in the event of job loss. Even where non-standard workers receive support, they often receive much lower benefits than standard employees. One group of particular concern is the self-employed as they have limited, if any, protection against the risk of job or income loss because of their lack of entitlement (OECD, 2019).

Short-Time Work (STW) compensation schemes exist in a majority of OECD countries. These schemes allow firms to reduce hours and labour costs when facing temporary falls in demand and output, without the need to lay off valuable staff. During the Great Financial Crisis, STW schemes were operated in 25 out of 33 OECD countries and proved successful in mitigating the rise in unemployment and in saving jobs (Cahuc and Carcillo, 2011). However, access to STW schemes may be limited or formally excluded for non-standard employees, especially those with temporary or part-time contracts, insofar as access to the scheme is subject to eligibility to unemployment benefits. Even when possible, the incentives for firms to include such workers in STW schemes are likely to be weak, because participation costs can be higher than hiring and firing costs. Therefore, temporary employees towards the end of their contract face a high risk of being laid off instead of benefiting from contract renewal and inclusion in STW schemes.

Table 2.4. Current policies and new measures to support non-standard and vulnerable workers during the COVID-19 crisis

	Access to sick leave		Income replacement and support					
			Self-employed		Temporary/Part-time workers			Informal workers
	Self-employed	Temporary / part-time workers	Access to unemployment benefits	Exceptional income support[1]	Access to unemployment benefits[2]	Access to short-time work	Wage subsidy	Income support
Australia	○	◐	●	●	●	●	●	
Austria	●	●	◐		●	●		
Belgium	●	●	◐	●	●	●		
Canada	◐	●	○	●			●	
Chile		●			●		●	●
Czech Republic	◐	●	●	●	◐			
Denmark	●	●	●	●	●	●	●	
Estonia	●	●	◐		◐		●	
Finland	●	●	*		●	●		
France	◐	●	○	●	●	●	●	
Germany	◐	●	◐	●		●	●	
Greece	○	●	◐	●	●		●	
Hungary	●	●	●		●			
Iceland	●	●	●		●		●	
Ireland	◐	●	◐	●	●		●	
Israel				●	●			
Italy	○	●	○	●	●	●	●	●
Japan		●	○				●	
Korea	○	*	◐	●			●	●
Latvia	●	●	○		◐		●	
Lithuania	●	●	○	●	●		●	
Luxembourg	●	●	●		●		●	
Netherlands	◐	●	○	●		●	●	
New Zealand		●					●	
Norway	●	●	○		●		●	
Poland	◐	●	◐	●	●		●	
Portugal	◐	●	●	●	◐	●		
Slovak Republic	●	●	●	●	◐		●	
Slovenia	◐	●	●	●	◐		●	
Spain	●	●	●	●	●	●	●	
Sweden	●	●	◐		●	●	●	
Switzerland	○	◐	○	●		●	●	
Turkey	◐	●	○			●	●	●
United Kingdom	●	●	◐	●	●		●	
United States	*	*	○	●	●		●	

Legend: ● = benefit available and access equal to standard workers; ◐ = benefit available but access is not equal to standard workers (either partial coverage or voluntary enrolment); ● = benefit available and enhanced in the context of the crisis (simplified access, extended coverage or generosity); * = benefit did not exist before and has been introduced in the context of the crisis; ○ = benefit not avalaible for non-standard workers; blank = information not avalaible.

Note: 1. Income support in the form of either lump-sums or temporary income replacement schemes. 2. Access relative to standard workers is assessed on the basis of the gap in benefit accessibility probability.

Source: The information is based on the OECD Policy tracker at http://oecd.org/coronavirus/en/#policy-responses/. For additional information on support available to workers during the COVID-19, see OECD (2020), "Supporting people and companies to deal with the Covid-19 virus: options for an immediate emplyoyment and social policy response", Tackling Coronavirus Series.

Informal workers face the highest risk of not receiving any form of sickness and income support. This is likely to have adverse health and income distributional implications in countries characterised by a higher estimated proportion of informality. These include most emerging economies and also advanced economies such as Eastern and Southern European countries, Latvia and Lithuania (Putniņš and Sauka, 2018).

Policy priorities and responses to support non-standard workers during the COVID-19 crisis

Facing the risk of a severe recession, many governments implemented extensive policy packages to help workers and firms stay afloat during the crisis. Most early measures aimed at sustaining firms and workers during the pandemic combined with strict containment measures in workplaces. In some cases, policies were directly targeted to non-standard workers and/or specific hard-hit sectors. The remainder of this note reviews actions taken to protect non-standard workers across the OECD in response to the crisis. Table 2.4 contains an overview of policy responses and Box 2.5 summarises policy options to protect non-standard workers during the COVID-19 crisis.

Box 2.5. Policy options to protect non-standard workers during the COVID-19 crisis

Protect against the adverse economic effects of falling sick:

- Ease access and coverage of paid sick leave to include non-standard workers and extend benefit duration to cover the recovery period required from the COVID-19 infection.
- Promote the adoption of paid sick leave plans among employers and support those offering one to their workforce.

Tackle the risks of large losses in jobs and earnings:

- Extend unemployment benefit coverage and duration to non-standard workers who lose their jobs during the pandemic.
- Promote the adoption of short-time work schemes, allowing firms to adjust hours worked while preserving jobs and earnings. Direct wage subsidies can support those businesses and sectors where the continuation of activity is not possible. Encourage firms to include in such schemes all valuable employees, including those under temporary contracts.
- With high informality, introduce a temporary transfer to address poverty risks.

Support small businesses in coping with the fall in activity:

- Provide financial support to small firms via preferred access to credit lines, loans or grants. Introduce income support to the self-employed and small entrepreneurs forced to stop activity.
- Reduce liquidity pressures by allowing small firms/entrepreneurs to defer payments of social security contributions and taxes, especially in the hardest-hit sectors.

Reduce the risk of long-lasting adverse distributional effects:

- Consider introducing more permanent social protection schemes after the crisis that allow access and participation by non-standard workers. Introduce portable social benefits systems that move with workers.
- Scale-up active labour market policies and training programs including digital ones and make sure that such programs reach those workers more in need of requalification.

Access to paid sick leave and unemployment benefits

To face the pandemic, about half of OECD countries exceptionally expanded or eased access to paid sick leave for non-standard workers. In some cases, the new measures lifted the stringency of access by removing the need for a medical certificate (e.g. Austria) or by reducing the waiting period before claimants can receive the benefit (e.g. Estonia and the United Kingdom). Some countries introduced a special

supplement to address coverage and generosity gaps between standard and non-standard workers. For example, in Portugal and Switzerland, a new benefit is paid to self-employed persons who need to self-quarantine. In the United States, only 43% of part-time workers are covered by an employer-provided paid sick leave plan, compared to 89% of full-time workers. The coverage rate falls to 31% for low-income earners (BLS, 2019). The new "Families First Coronavirus Response Act" allows part-time workers in small and medium-sized firms as well as “gig economy” workers (including the self-employed) to access paid sick leave for up to two weeks.

To protect all workers who are likely to lose their jobs because of business closures, access to unemployment benefits was introduced or strengthened for non-standard workers in a majority of OECD countries, reflecting the major social protection gaps in this area. In Canada, an immediate emergency assistance plan extended unemployment benefits to part-time workers and self-employed workers. In Spain, where the proportion of temporary employees is among the highest across European countries (Figure 2.21), temporary workers whose contracts expired during the state of emergency and who had not reached the minimum contribution period for unemployment insurance received an exceptional temporary allowance.

Protecting workers against earnings and job losses

Some of the countries with a relatively high proportion of low-wage temporary employees took action to include temporary workers into STW schemes, at least for the duration of shutdown. This is the case of Belgium, Germany, France and Italy. Learning from the experience of the 2008 recession, governments encouraged the use of STW schemes or offered wage subsidies to firms in an attempt to compensate workers for income loss and, at the same time, to preserve jobs from being destroyed. These steps are needed because temporary employees either often do not qualify for STW schemes or, when they do, are less likely to access them because of unstable work histories.

Several OECD countries introduced temporary income replacement schemes to support the self-employed experiencing severe income losses. In Denmark, self-employed and freelance workers experiencing an income loss of more than 30% can receive a cash support amounting to 75% of the loss for up to three months. Self-employed in the informal sector and “gig economy” workers are particularly vulnerable to even temporary income losses due to a lack of savings and limited access to social protection. Action was taken in several countries to provide exceptional income support to those vulnerable groups, including by trying to support informal workers in Italy and in emerging-market economies like Chile and Turkey, with a large proportion of self-employed and informal workers. Australia extended the Job Seeker Payments scheme to cover the self-employed and those casual employees with a minimum employment record.

Beyond measures to protect the self-employed from income losses, almost all OECD countries took action to support the activity of small and medium-sized enterprises (SMEs), as discussed in detail in OECD (2020c). Measures were introduced to allow SMEs to delay without penalties the payment of taxes, rents, utility bills, social-security contributions or debt interest. In addition, many countries set up unprecedented credit facilities that include state-backed credit lines, direct loans and grants.

Some countries provided additional support targeted to small firms operating in the hardest-hit sectors, as these face high risk of closing down. In addition to making guaranteed loans available to most firms in distress, Portugal set up a credit line worth EUR 60 million dedicated exclusively to micro-companies in the tourism sector. In Hungary, employers’ payments for social security contributions were suspended for businesses in the tourism, catering, transportation, and entertainment industries.

Reducing the risk of long-lasting adverse distributional effects

Policy action should help to prevent crisis-related adverse distributional effects from becoming long lasting by preventing job losses from COVID-19 translating into long-term unemployment, with associated scarring effects and labour market detachment. Despite the presence of wage subsidies during the lockdown, some workers risk losing their jobs as associated income support is gradually phased out. This risk is higher for non-standard workers, especially those with few qualifications in hard-hit sectors that are likely to see their activity decline even as the economy recovers. Likely examples include tourism, hotels and restaurants. While it is difficult to quantify the magnitude of potential job losses in different sectors at the current juncture, some job loss is likely to occur due to falling demand over the medium-term. Changes in the labour market may require workers to relocate from declining to expanding sectors and new jobs, potentially digitally-intensive jobs or jobs in the “gig economy”.

The reallocation and matching between workers and jobs should be smooth and inclusive, that is, minimising labour market segmentation and inequality. This requires effective active labour market policies and requalification schemes, on top of adequate income support to help job search, for all workers. New training programs, digitally delivered, could be developed to provide the skills required for different jobs. Countries should also consider encouraging remote work, for instance, by ensuring that broadband access and other infrastructure are available for all households and businesses.

Many OECD countries have temporarily expanded sick leave, health and unemployment benefits to non-standard workers. Consideration should also be given to introducing more permanent social protection schemes after the crisis, as well as the development of portable social benefits systems that move with workers. Equity in access to social protection across different categories of workers would increase job quality and contribute to the reduction of labour market segmentation and inequalities. Reforms in this area would also bring efficiency and equity gains.

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Issue Note 5: Flattening the unemployment curve? Policies to support workers' income and promote a speedy labour market recovery

This note analyses the roles of job-preserving measures, including short-time work schemes, and the unemployment insurance system, in supporting workers' income and ensuring that employment rapidly rebounds as COVID-19-related shutdowns of non-essential activities are eased. Given large uncertainty about the longer-term consequences of the COVID-19 crisis for the reallocation of resources across industries and firms, the challenge is to preserve jobs that are viable in the medium term while allowing workers in distressed firms and industries to move to those with better growth prospects. Against this background, the note outlines a number of policy options to balance job preservation with reallocation by adjusting the parameters of existing policies as the COVID-19 crisis evolves.

Introduction and main findings

The spread of the COVID-19 virus across countries and measures taken by governments to contain it – including shutdowns of many businesses and restrictions on travel and mobility – imply sharp contractions in GDP and the associated employment losses risk dwarfing those experienced during the global crisis of 2008-09. The OECD projects the OECD-wide unemployment rate to increase by around 6 percentage points between the fourth quarter of 2019 and the second quarter of 2020 as compared to an increase of 2.2 percentage points between the third quarter of 2008 and the second quarter of 2009.

Labour market policies play a critical role in limiting social hardship and ensuring that employment rapidly rebounds once the shutdown of non-essential activities is eased. The focus is on the respective roles of policies aimed at preserving existing jobs (e.g. short-time work schemes, temporary layoff schemes and administrative measures to limit dismissals) and the unemployment insurance system. Economic downturns triggered by shocks that are both transitory and exogenous, such as natural disasters, typically require limited reallocation of resources. In this case, policies to preserve existing jobs may be the best course of action to both support workers and ensure businesses quickly resume activity once the initial shock fades. However, existing jobs may become unviable following shocks that require a sizeable reallocation of resources, such as financial and housing crises or persistent changes in commodity prices. In this case, partly relying on the unemployment insurance system allows for sufficient reallocation of resources rather than preserving existing jobs that may no longer be viable. The optimal mix of job preservation and unemployment benefit policies to support workers and ensure a rapid recovery thus depends on whether the exogenous COVIP-19 shock turns out to be purely transitory or more persistent.

The main findings of the analysis are summarised in Box 2.6.

Box 2.6. Key findings

- OECD projections of an increase in the OECD unemployment rate between the fourth quarter of 2019 and the second quarter of 2020 of around 6 percentage points are significantly above the prediction of 3 percentage points based on the historical relation between unemployment and GDP growth ("Okun's law").
- Large positive deviations of unemployment projections from Okun's law are observed in countries that have taken only limited measures to preserve existing jobs through job retention schemes, whereas unemployment projections are similar to Okun's law in countries with large job retention schemes. Moreover, administrative unemployment register data for April 2020 suggest that unemployment has increased significantly less in countries with large job retention schemes.
- While job retention schemes may be *effective* in preserving existing jobs in the short term, these schemes may not be *efficient* in reallocating workers from unviable jobs to industries and firms with better medium-term growth prospects. Restrictions on some non-essential activities (e.g. travel; hotels and restaurants; parts of the retail sector; recreational services) may persist for some time and consumer demand may not fully recover even thereafter, while industries and firms with business models that are compatible with social distancing may grow (e.g. e-commerce; courier, express and parcel services; parts of the health sector; as well as activities that rely mostly on tasks that can be performed remotely), suggesting that the COVID-19 shock may require significant reallocation of resources.
- Given large uncertainty about the longer-term consequences of the COVID-19 crisis for the reallocation of resources across industries and firms, policies to preserve existing jobs can be combined with temporary expansions of unemployment benefits where generosity and/or coverage is currently low.
    - For instance, employers' contributions to the cost of job retention schemes could be set in such a way that only businesses expecting to be viable in the medium term select into them rather than using the unemployment insurance system. This may require combining low employers' contributions during the acute phase of shutdowns with a gradual increase over time. Moreover, access to training and restrictions on combining income from short-time work schemes with income from other jobs could be eased to allow workers seize new job opportunities as they arise.
    - An appropriate balance between preserving existing jobs and reallocation could also be achieved by strengthening incentives in unemployment insurance systems to recall dismissed workers once economic conditions improve. Combining generous unemployment benefits with rules that provide subsidies or tax relief for firms that recall previously dismissed workers could support workers and preserve job matches to a similar extent as short-time work schemes while allowing for a sufficient degree of reallocation.

Benchmark unemployment forecasts based on Okun's law

Okun's law quantifies the average response of the unemployment rate to changes in GDP growth. Previous studies generally find that Okun's law is a strong empirical regularity in most countries (Ball et al., 2017). However, the size of the Okun coefficient – the effect of a 1% shock to GDP on the unemployment rate – is typically found to vary across countries and, to a lesser extent, within countries over time. Typical

estimates of the Okun coefficient range from -0.1 to around -0.8, suggesting that a 1% decline in GDP may raise the unemployment rate by between 0.1 and 0.8 percentage points. These differences are typically interpreted as reflecting differences in labour market policies and institutions.

The country-specific Okun coefficients are estimated using quarterly unemployment and GDP data over the period 2000-2019 based on the following equation:

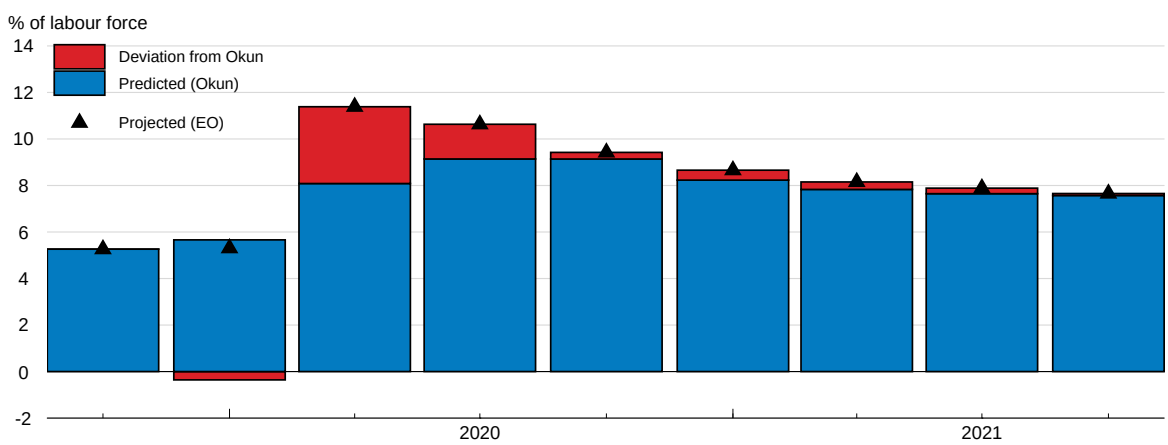
$$\Delta U_q = \alpha + \beta_0 \Delta log(Y_q) + \beta_1 \Delta log(Y_{q-1}) + \beta_2 \Delta log(Y_{q-2}) + \varepsilon_q \quad (3)$$

where U_q is the unemployment rate in quarter *q*, Y_q is real GDP, *β* are the Okun coefficients, and ε is the error term; α denotes the intercept and can be interpreted as the change in the unemployment rate at zero GDP growth. Consistent with previous studies, estimated Okun coefficients range from around -0.1 in some countries, including Japan, Korea and Norway, to -0.8 in Spain (Annex Figure 2.B.1).

The Okun predictions conditional on GDP projections in a scenario with a single COVID-19 outbreak ("single-hit scenario") suggest that the OECD unemployment rate could increase from around 5% in the fourth quarter of 2019 to 8% in the second quarter and 9% in the third quarter of 2020 (Figure 2.25). In the single-hit scenario, GDP growth in the OECD would be around -2% in the first quarter of 2020, -13% in the second quarter and +6½ per cent in the third quarter. Predicted unemployment based on Okun's law continues to increase in the third quarter despite positive GDP growth because the estimated Okun coefficients imply significant persistence in unemployment.

Figure 2.25. OECD unemployment projections and deviations from the Okun benchmark

OECD unemployment rate, as a percentage of labour force



Note: The Okun predictions for the level of unemployment are obtained by cumulating the predicted value from equation (1) over the projection horizon (2020Q1-2021Q4). The blue bars denote the predicted unemployment rate based on estimated Okun coefficients; the black markers denote current OECD projections; and the red bars show the difference between OECD projections and Okun predictions.
Source: OECD calculations.

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The positive average deviation of OECD projections from Okun's law could reflect a number of factors. One factor could be the prevalence of COVID-19-related shutdowns in highly employment-intensive industries, which appears indeed to be the case for the OECD as a whole (Annex Figure 2.B.2). Another reason that may be particularly relevant in the current context could be that the unemployment response is non-linear in the sense that large negative GDP shocks may have disproportionately large and rapid effects on the unemployment rate compared with more moderate shocks. In any case, the positive average deviation of projections from the Okun prediction hides significant differences across countries (OECD, 2020c). In part, this may reflect the fact that OECD projections account for exceptional labour market policy measures taken in response to the COVID-19 crisis.

Policy-related deviations of unemployment from the Okun benchmark

Policies that encourage the preservation of existing jobs, such as job retention schemes as well as administrative suspensions of dismissals, may lead to deviations of unemployment from the Okun benchmark. The Okun benchmark described above measures the *average* response of unemployment to changes in GDP growth, both during economic upturns and economic downturns. To the extent that a number of governments have put in place *exceptional* measures to damp the unemployment increase in response to the COVID-19 crisis, one may expect the Okun benchmark to over-predict the increase in unemployment, or at least not to under-predict it as observed in Figure 2.25 for the OECD average. Although data on GDP growth and unemployment for the first half of 2020 are not yet available to formally test this hypothesis, a first assessment can be made by analysing OECD projections. OECD country experts integrate real-time information on GDP growth and unemployment from high-frequency indicators in their projections, as well as information on the extent of job-preserving measures, including past experience and real-time information on programme uptake. While by no means allowing a formal test of the hypothesis that job-preserving measures dampen increases in unemployment, the use of OECD projections allows summarising the currently available information in a synthetic way.

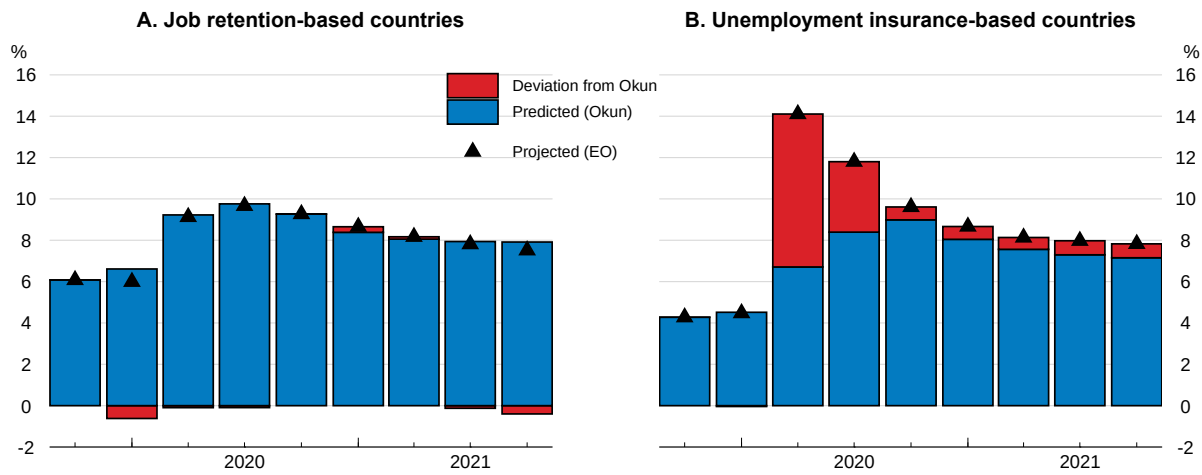
To compare and contrast outcomes, countries are split into those with large job retention schemes ("retention-based countries") and those that have taken no exceptional measures in this area, continuing to rely mostly on unemployment insurance ("unemployment insurance-based countries"). Retention-based countries have either expanded existing job retention schemes or introduced large schemes during the crisis, with take-up suggesting that a significant share of businesses and workers are participating in them (Annex Table 2.B.1). Unemployment insurance-based countries do not have a job retention scheme in place, or take-up of existing schemes has been limited to a small fraction of businesses and workers.

Unemployment projections overshoot the Okun benchmark in unemployment insurance-based countries but are similar to the benchmark in job retention-based countries (Figure 2.26). The absence of significant deviation from the Okun benchmark in retention-based countries despite the fact that the shutdown industries appear to be more employment intensive than other industries suggests that country desks project job retention schemes to significantly damp increases in unemployment. In the second quarter, the deviation in retention-based countries is negligible while the overshoot in insurance-based countries is around 7½ percentage points. Taking the difference in the deviation from the Okun benchmark in retention-based and insurance-based countries at face value, on average, country desks project job retention schemes to damp increases in unemployment in the second quarter of 2020 by 7½ percentage points (0 deviation minus positive deviation of 7½ percentage points).[1]

[1] Note that employment intensity in the shutdown sectors is not systematically higher in insurance-based countries than in retention-based countries, suggesting that differences in the deviation from the Okun benchmark do not simply reflect differences in employment intensity.

A complementary way to assess the likely effectiveness of policies to preserve existing jobs is to compare real-time unemployment developments across countries with and without large job retention schemes. Such comparisons would ideally be based on deviations from the same Okun benchmark. However, GDP is available on a less timely and lower-frequency basis than unemployment data, which makes the computation of real-time deviations from Okun's law impossible. The approach taken in Box 2.7 is to report both changes in registered unemployment and the workforce covered by applications to job retention schemes. Increases in unemployment have been systematically smaller in countries with larger coverage of applications, suggesting that these schemes have been effective in limiting increases in unemployment.

Figure 2.26. Deviations from Okun's law partly reflect labour market policies



Note: The Okun predictions for the level of unemployment are obtained by cumulating the predicted values from equation (1) over the projection horizon (2020q1-2021q4). The blue bars denote the average predicted unemployment rate based on Okun coefficients, the black markers denote OECD projections, and the red bars the difference between projections and Okun predictions. Country groupings are based on the number of applications for participation in job retention schemes and OECD country desks' expert judgement (Table A.1). Job retention-based countries: Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Finland, France, Germany, Iceland, Ireland, Israel, Italy, Japan, Lithuania, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom. Unemployment insurance-based countries: Colombia, Estonia, Greece, Hungary, Korea, Latvia, Mexico, Poland, United States.
Source: OECD calculations.

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Box 2.7. Unemployment developments in real time

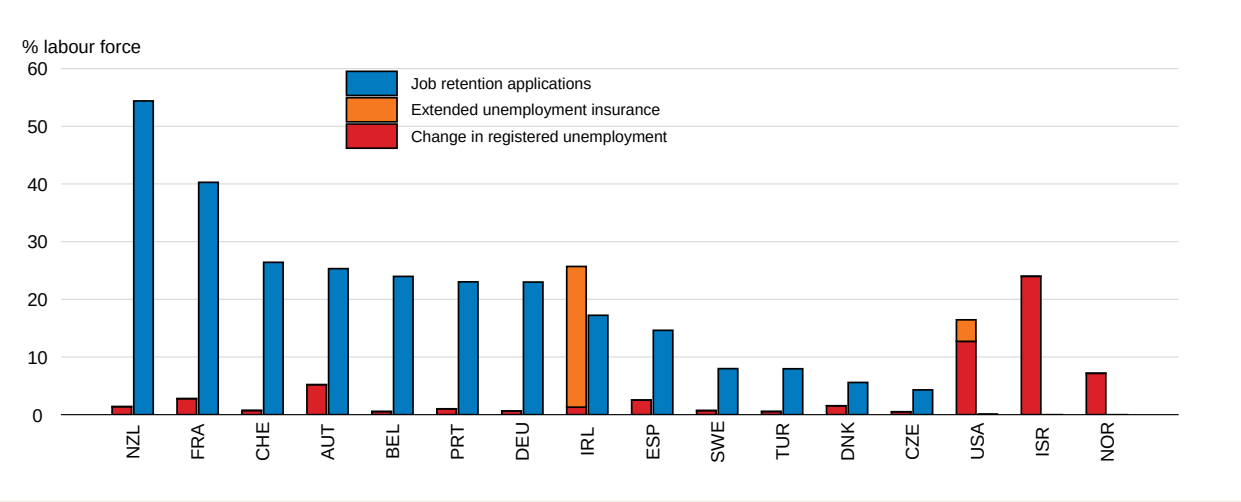
Official data on unemployment from Labour Force Surveys is typically released with a lag of several weeks or months, with most currently available data referring to a period before countries entered shutdowns. This box therefore focuses on administrative data from unemployment registries that are often significantly more timely. The focus is on the number of registered unemployed as a fraction of the total labour force.

Countries with large shares of the workforce covered by applications to job retention schemes typically experienced smaller increases in (registered) unemployment between early March and end-April 2020 than countries with smaller schemes (Figure 2.27).1 This pattern is in line with real-time survey evidence from April from a small number of OECD countries (Adams-Prassl et al., 2020). This pattern is particularly evident if large extensions of unemployment insurance in Ireland and the United States, which push up the unemployment rate relative to countries without such extensions, are netted out. A caveat with respect to the data on applications for participation in job retention schemes is that typically only a fraction of applications is taken up (Box 2.8). However, preliminary data suggest that in France take-up is around 50%, significantly higher than during the economic crisis of 2008-09 (DARES, 2020).

Data from private businesses such as internet search engines can offer an alternative real-time view of labour market developments and are available with even shorter time lags than administrative data. An analysis of Google Trends data on searches for unemployment benefits reveals a similar country pattern as administrative data (OECD, 2020c), but this analysis has the drawback that the estimated relation between internet searches and the unemployment rate may not be stable, especially in this exceptional situation.

Figure 2.27. Registered unemployment and applications for participation in job retention schemes

Early March to end-April



Note: The change in registered unemployment refers to the difference between early March 2020 and the end of April as a fraction of the total labour force. Job retention applications refers to the workforce covered by applications to national job retention schemes since early March and until end of April, or closest available date. Actual take-up may be lower than the number of applications as only a subset of applying firms actually take up short-time work. Registered unemployment data are not seasonally adjusted, except for the United States. Registered unemployment includes workers on unpaid leave in Israel and on temporary layoffs in Norway. Extended unemployment insurance refers to COVID-19 Pandemic Unemployment Payment in Ireland and Pandemic Unemployment Assistance in the United States. Note that numbers on job-retention applications may differ from those reported in Annex Table 2.B.1 because of the common end-of-April cut-off date applied in this figure for cross-country comparability purposes.

Source: OECD calculations based on registered unemployment from OECD.stat (Belgium), AMS (Austria), MPSV (Czech Republic), Arbeitsagentur (Germany), STAR (Denmark), SEPE (Spain), Pôle Emploi (France), Live Register (Ireland), Ministry of Social Development (New Zealand), NAV (Norway), Israeli Employment Agency (Israel), MTSSS (Portugal), Arbetsformedlingen (Sweden), SECO (Switzerland), ISKUR (Turkey), Department of Labor (United States). Data on job retention scheme applications from: Ministry of Labour, Family and Youth (Austria), ONEM (Belgium), Federal Council (Switzerland), MPSV (Czech Republic), Arbeitsagentur (Germany), Ministry of Industry, Business, and Financial Affairs and STAR (Denmark), SEPE (Spain), Ministry of Labour (France), Live Register (Ireland), Ministry of Social Development (New Zealand), MTSSS (Portugal), Tillvaxtverket (Sweden), ISKUR (Turkey), Department of Labor (United States).

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1. Registered unemployment includes workers on unpaid leave in Israel and on temporary layoffs in Norway. If interviewers follow standard practice in these countries, these workers will not be included in labour force-based unemployment figures.

Policy discussion

The above analysis based on OECD unemployment projections and real-time unemployment data suggests that measures to encourage the preservation of existing jobs are likely to be *effective* in limiting increases in unemployment in the short term. Previous research also suggests that such policies are effective in the sense that they do not primarily preserve jobs that would have been preserved even in the absence of job retention schemes (Hijzen and Venn, 2011; OECD, 2018). Searching for suitable jobs in terms of wage and non-wage attributes, such as location, working time or employer amenities, is costly for workers, as is the search of employers for suitable workers. Preserving existing jobs reduces such costs of matching employers to employees and may thereby promote a quicker labour market recovery as activity rebounds. To the extent that the COVID-19 shock is temporary and does not require a major reallocation of resources, freezing the existing allocation of resources by preserving existing jobs may also promote longer-term growth of employment and productivity by limiting the loss of firm-specific human capital.[2] However, the preservation of existing jobs may not be *efficient* if the COVID-19 shock turns out to be more persistent than initially expected as some fraction of jobs preserved by short-time work schemes may not be viable in the long term. For instance, a number of non-essential activities (e.g. travel, hotels and restaurants, parts of the retail sector, recreational services) may suffer persistent rather than transitory declines as a result of new social distancing standards or changes in consumer preferences.[3]

One policy option to preserve existing jobs are job retention schemes. These schemes typically operate on the principle that businesses are subsidised to preserve existing job matches while workers experience no or limited wage losses (Box 2.8). In practice, businesses continue to pay employees a significant part of their monthly wages even though they are working only part-time or not at all. In return, they can claim a wage subsidy that covers part of the excess wage cost. Short-time work schemes allow for work sharing in the sense that working time for all workers is typically reduced by a fixed proportion, whereas temporary layoff schemes allow businesses to put all or a proportion of workers on “furlough” (i.e. zero hours). In practice this difference is less significant, as most temporary layoff schemes set up during the COVID-19 crisis allow for some degree of work sharing. A number of countries, including Australia and New Zealand, have introduced broad wage subsidy schemes that are not conditional on working time reductions but may be used as short-time work or temporary layoff schemes. Businesses resorting to job retention schemes are typically required not to dismiss workers while using the schemes, although this is not the case in all countries, e.g. in the German short-time work scheme (Box 2.8).

[2] Evidence for the United States suggests that the probability of recalling a worker that has previously been laid off is positively correlated with pre-unemployment tenure and wage declines among laid off workers are smaller for those who are eventually recalled (Fujita and Moscarini, 2017), which suggests that firm-specific human capital is important.

[3] Based on a business survey, Barrero et al. (2020) estimate that in the United States the COVID-19 shock has thus far caused three new hires in the near term for every 10 layoffs.

Box 2.8. An illustration of policies to preserve existing jobs

The German short-time work scheme

The subsidy scheme for short–time work (*Kurzarbeitergeld*) aims to reduce the labour costs of companies that are in temporary distress. In its current form, companies are generally eligible to use short-time work if they face a major drop in activity for economic reasons or due to extraordinary events, provided the drop is temporary and unavoidable. Specifically, at least one-third of employees must lose more than 10% of their gross wage and other options to reduce working time, such as negative balances on working time accounts, must have been exhausted.

In normal times, the labour agency reimburses 60% of the lost net earnings for a childless worker and 67% for a worker with children. Social security contributions for lost working hours usually have to be fully covered by the employer. All workers that are subject to social-security contributions can receive the subsidy including workers on temporary contracts or apprentices but workers in marginal employment (*minijob*s) or temporary-agency workers cannot receive the subsidy. The subsidy can be used for a maximum of 12 months, up from 6 months before 2016. Firms resorting to short-term schemes are allowed to dismiss workers for economic reasons if conditions deteriorate beyond those reported in the short-time work notification.

Exceptional measures in response to the COVID-19 crisis include:

- The eligibility threshold of affected workers has been lowered to 10% in March 2020 and the requirements on negative working-time balances have been lifted. Temporary agency workers have become eligible for the subsidy scheme.
- The labour agency covers 100% of social security contributions for the lost working hours starting from the first month.
- In April 2020, the government increased the replacement rate of lost net earnings to 70% for childless workers and 77% for workers with children from the fourth month of short-time work if they have reduced their working time by at least 50%. In the seventh month, payments are increased further to 80% and 87% respectively.
- Restrictions on taking part-time jobs while on short-time work have been lifted. Additional earnings are not credited against short-time work benefits so long as total income does not exceed previous earnings.

These measures are scheduled to be phased out at the end of 2020. The labour agency has reported a high number of applications in response to the Covid-19 pandemic, suggesting significantly higher take-up than during the economic crisis of 2008-09. Since the beginning of March, over 750 000 firms submitted a notification to potentially use short-time work with the largest increase occurring in April. The cumulative number of workers mentioned in those notifications exceeds 10 million, which is an upper bound for actual take-up. The labour agency estimates that around 6 million workers were in short-time work in April (around 14% of the labour force). Over the course of 2009, 3.3 million workers were mentioned in initial notifications to the labour agency, while on average one third of those ended up participating in short-time work.

The Danish job retention scheme

The Danish government and the social partners agreed to set up a job retention scheme (*Lønkompensationsordning*) effective from 9 March 2020. Employers can furlough between 30% and 100% of their employees with 75% of their monthly wage costs covered by the government. For lower-wage employees who are usually on contracts with short notice periods, the government subsidy is 90% of the monthly wage cost. The government subsidy is capped at EUR 4 000 per employee per month. Employers must pay the remaining part of the salary and promise not to lay off any worker for economic reasons. Employees keep their salaries but must use five days of annual leave and are not allowed to work on days that they are furloughed.[1] Employers may furlough workers part-time (e.g. every second day or second week) as long as at least 30% of employees (or at least 50 people) are furloughed on average. The job retention scheme is scheduled to remain in place for six months.

Employers furloughed about 7% of the labour force during the first two months of the job retention scheme, limiting the increase in the unemployment rate to a comparatively modest 1.6 percentage point during the shutdown. The take-up of an existing short-time work scheme (*Arbejdsfordelingsordning*) only increased by 0.3% of the labour force. The reasons are likely that this scheme is less accessible and flexible for employers and requires agreement with trade unions. Short-time work is much less generous for employees compared to job retention as they can only receive supplementary unemployment insurance benefits on non-work days. Moreover, employees in the hardest hit industries typically have the lowest union membership rates and the lowest enrolment in the voluntary unemployment insurance scheme.

The Danish job retention scheme achieved the purpose of preserving existing jobs at large scale during the shutdown. Concerns about the job retention scheme include the economic loss from subsidising people not to work and possible design flaws. Although, the scheme offers flexibility to furlough workers only part of the time, this may be unattractive for employers since there is a 25% wage cost on non-work days whereas employers incur no costs when using the short-time work scheme.

Suspension of economic dismissals in Italy

Italy first responded to the COVID-19 crisis with the March *Cura Italia* decree. One of its provisions suspended the right to dismiss employees for economic reasons. The May *Recovery* decree extends the prohibition to 16 August 2020. The suspension covers both permanent and temporary employment contracts but temporary contracts expiring during the suspension period will be allowed to expire. In the fourth quarter of 2019, 17% of Italy's workforce held temporary contracts, 20% of which were set to expire within three months and 400 000 in March and April 2020. 13% of the workforce, or 3 million workers, are self-employed.

The *Cura Italia* and *Recovery* decrees also expanded the main short-time work scheme, the Wages Guarantee Fund (*Cassa Integrazione, CIG*), to all businesses, extended the period it is available and streamlined access and administration. However, the CIG does not cover employees on temporary contracts or the self-employed. The government has expanded unemployment benefits and other social safety nets. Employers will continue to have access to these expanded liquidity and wage support schemes after the suspension of economic dismissals expires. Suspending layoffs for economic reasons may encourage employers to use these schemes as well as taking other measures to adapt to COVID-19-related shutdowns, including remote work and requiring employees to take holidays.

1. In principle, workers can take jobs with other employers on days that they are on furlough. In practice, they do not take this opportunity because they need to be available for the furloughing employer with one-day notice.

Job retention schemes that are used for work sharing preserve human capital of workers particularly effectively, as workers continue to work part-time but receive a subsidy for being partially unemployed. The adjustment in hours worked allows firms to adjust working time rather than employment, thereby preserving the job match while allowing workers to maintain their human capital and avoiding the trauma of job loss. In order for job retention schemes to promote work sharing among all workers, an important consideration is the coverage of non-standard workers, such as temporary or dependent self-employed workers. Broad coverage can ensure that the burden of employment adjustment does not disproportionately fall on non-standard workers (OECD, 2020d).

Another labour market policy option to preserve existing jobs and freeze the existing allocation of resources is to suspend the dismissal of workers for economic reasons. A number of countries, including Italy and Spain, have introduced such suspensions to varying degrees (Box 2.8). In contrast to short-time work schemes – whose cost is typically shared between workers, firms and the government – the cost of administrative suspensions of dismissals is fully borne by firms if no compensating subsidies are in place. This may put firms that may otherwise be viable at risk of failure. In Italy and Spain, for instance, this risk is mitigated by providing subsidies through liquidity support measures (OECD, 2020a) or by combining suspensions of dismissals with short-time work schemes. However, a significant drawback of such suspensions is that they do not cover non-standard workers, such as temporary workers with imminent contract expiration dates or dependent self-employed workers who are not covered by dismissal regulations. Limited coverage of non-standard workers by short-time work schemes could further re-inforce such uneven employment adjustment across different groups of workers (OECD, 2020d).

A number of countries, including many in Central and Eastern Europe and the United States, have taken very limited labour market measures to support the preservation of existing jobs.[4] Firms in these countries have greater incentives to lay off workers in response to the COVID-19 shock. For instance, US data on registered unemployed shows that about 13% of the labour force have been laid off in the United States between mid-March and end-April 2020. This partly reflects the ease of layoffs in the United States and the absence of significant job retention schemes at the federal level.[5]

This approach allows for the possibility that the COVID-19 shock may have more persistent economic implications than initially expected and may therefore require a significant reallocation of resources in the future. Laid-off workers are more likely to engage in job search than workers on short-time work schemes. At the same time, an exceptionally high share of layoffs during March and April in the United States appears to be temporary, with around 90% of all laid-off workers in the April labour force survey reporting to be on temporary layoff. Temporarily laid-off workers have explicitly been provided with a recall date by their employers or expect to be recalled in the future, suggesting that the employer-employee relation has not been fully severed and a degree of attachment of the employee to the previous employer remains intact (Groshen, 2020). The recall rate is particularly high for temporary layoffs – around 85% according to Fujita and Moscarini (2017) – suggesting that a significant share of these workers may be recalled by their previous employers if and when economic conditions normalise.[6] By contrast, employers for which the COVID-19 shock adversely affects longer-term growth prospects are likely to permanently sever the employment relationship.

[4] These countries have generally taken significant non-labour market measures to preserve existing businesses, including through liquidity support (OECD, 2020a), and shelter workers from income losses through expanded unemployment insurance (OECD, 2020f).

[5] In the United States, short-term work schemes exist in 26 states but take up has been extremely limited (Von Watcher, 2020).

[6] Recalls are particularly likely if the COVID-19 shock is short-lived, as the likelihood of recall is high for low unemployment durations but declines over time (Fujita and Moscarini, 2017).

The main drawback of relying on unemployment insurance rather than preserving existing jobs is the risk of excess dismissals and social hardship. Businesses do not immediately bear the cost of laying off workers while they partly bear the cost of short-time work schemes. Even if firms expect job matches to be viable in the long term, they may choose to lay off workers to reduce costs, thereby creating a negative externality on the unemployment insurance system (Cahuc and Zylberberg, 2008). Such risk of excess dismissals is particularly pronounced in countries with weak employment protection. At the same time, relying on unemployment insurance rather than preserving existing jobs may lead to social hardship, especially where earnings replacement rates are low or a significant part of the workforce may not be eligible for unemployment benefits (e.g. the dependent self-employed) or may only be entitled to low benefits (e.g. temporary workers with patchy employment histories (OECD, 2020d). Even with extended coverage and enhanced generosity of unemployment benefits, this approach may nonetheless lead to social hardship in countries where health and/or pension insurance are provided by employers or linked to peoples' employment status.

Given the high degree of uncertainty on the consequences of the COVID-19 shock for the reallocation of resources, the challenge for policy makers is to find the right balance between measures to promote the preservation of jobs that are viable in the long term and the reallocation of workers in unviable jobs. The prudent course of action is to combine policies to preserve existing jobs with temporary expansions of unemployment benefits to limit the income loss for laid-off workers. One policy option is to adjust the relative cost for firms of choosing short-time work over lay-offs (OECD, 2018). If more reallocation is deemed to be required, for instance because activity in high-contact sectors does not fully recover in the medium term, lay-offs could be made relatively more attractive by reducing the government subsidy to short-time work schemes while possibly protecting workers' income by expanding unemployment insurance. This may become increasingly relevant as shutdowns are eased in countries with particularly generous government subsidies to job retention schemes, such as Denmark, France and the United Kingdom. In countries with a risk of excess layoffs, such as most Central and Eastern European countries and the United States, there may be room to promote the use of existing short-time work schemes and/or making access to various aid programmes set up in response to the COVID-19 shock conditional on preserving employment.[7] In US states with short-time work schemes, for instance, firms could be encouraged to reduce working time rather than lay off workers, which would give workers on reduced hours access to the full weekly USD 600 lump-sum payment in the COVID-19 rescue package on top of pro-rated unemployment benefits (Von Watcher, 2020).

Other options to adjust the balance between the preservation of existing jobs and reallocation is to promote reallocation in job retention schemes and promote recalls where firms rely predominantly on lay-offs to adjust total hours. Reallocation in job retention schemes could be promoted by lifting restrictions on taking new jobs without workers losing their benefits. Workers in job retention schemes could also be provided with training subsidies, for instance in the area of digital skills, which may allow them to look for and perform jobs online. In countries where firms predominantly rely on layoffs, preservation of existing jobs that are viable in the long term could be promoted by subsidising recalls of previously dismissed workers. Firms do not account for the positive externality of recalls on workers' wages as the gains from recalls only partly accrue to firms through higher productivity while part of them go to workers through higher wages. In Israel, for instance, the government introduced a recall subsidy of around USD 2100 at the end of May. One option of subsidising recalls in the context of the COVID-19 crisis is to partly convert liquidity support in the form of interest-free loans or tax deferrals into subsidies conditional on firms recalling their previously dismissed workers (Fujita et al., 2020).

[7] The Paycheck Protection Programme enacted as part of the COVID-19 rescue package (CARES Act) allows for conversion of loans into grants if funds are used for payroll, with allowances for rent and utilities. However, caps on the size of loans per firm and high rents in large cities appear to have limited the extent of job retention.

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Annex 2.B. Country-specific tables and figures

Annex Table 2.B.1. Job retention policies in OECD countries

A. Job-retention-based countries

Country	Available information on job retention schemes
Australia	Introduction of *JobKeeper payment* scheme. The applications cover 21.2% of the labour force by 20 May 2020.
Austria	Introduction of *Corona Kurzarbeit* building on *Kurzarbeit*. The applications cover 30.8% of the labour force by 2 June 2020.
Belgium	Extension of *Chômage temporaire* by easing administration, increasing subsidy and removing conditions on firm turnover. The applications cover 24% of the labour force by 30 April 2020.
Canada	Introduction of Canada Emergency Wage Subsidy (CEWS). The applications cover 9.4% of the labour force by 9 May 2020.
Chile	Introduction of *Employment Protection Act*. The applications cover 6.5% of the labour force by 22 May 2020.
Czech Republic	Introduction of Antivirus programme. The applications cover 12% of the labour force by 22 May 2020
Denmark	Introduction of *Midlertidig loenkompensation*. The applications cover 7% of the labour force by 18 May 2020.
Finland	Extension of *Temporary layoff programme* by shortening the notice period, with weak conditions. Information on number of applications is currently unavailable.
France	Modification of *Chômage partiel* by increasing subsidies. The applications cover 43.2% of the labour force by 25 May 2020.
Germany	Extension of *Kurzarbeit* by increasing firm coverage. The applications cover 26.6% of the labour force by 27 May 2020.
Iceland	Extension of *Part-time unemployment benefits* by increasing coverage, with strong conditions. Information on number of applications is currently unavailable.
Ireland	Introduction of *Temporary COVID-19 Wage Subsidy Scheme*. The applications cover 20% of the labour force by 28 May 2020.
Israel	Extension of *employment insurance* to workers who are placed on unpaid leave by their employers. Workers on unpaid leave extend to 21.1% of the labour force on 30 April 2020.
Italy	Extension of *Cassa integrazione* by increasing firm coverage to every firm, with weak conditions. The applications cover 31.6% of the labour force by 18 May 2020.
Japan	Extension of *Employment Adjustment Subsidy* to increase coverage and easing requirements. The scheme has weak conditions. Information on number of applications is currently unavailable.
Lithuania	Introduction of *Downtime allowance*, with weak conditions. Information on number of applications is currently unavailable.
Luxembourg	Extension of *Chômage partiel* by increasing coverage and easing administration. The scheme has weak conditions. Information on number of applications is currently unavailable.
Netherlands	Introduction of Tijdelijke Noodmaatregel Overbrugging ten behoeve van behoud van Werkgelegenheid, which replaces the earlier short time work scheme. The applications cover 18.2% of labour force by 30 April 2020.
New Zealand	Introduction of *Covid-19 Leave Support Program / Wage Subsidy*. The applications cover 51.8% of labour force by 22 May 2020.
Norway	Extension of *Permittere*, by reducing the administrative burden. The applications cover 13.8% of the labour force by 31 May 2020.
Portugal	Extension of *Temporary lay-off scheme* by extension the coverage. The applications cover 25.3% of the labour force by 27 May 2020.
Slovakia	Introduction of Prvá *pomoc*, unconditionally on turnover. The applications cover 11.5% of the labour force for March 2020.
Slovenia	Introduction of a new short-time work scheme, with strong conditions. The applications cover 33.6% of the labour force by 30 April 2020.
Spain	Extension of *Expedientes de Regulación de Temporal de Empleo* by increasing coverage and easing administration. The scheme is conditional on laid-off workers. The applications cover 16.2% of the labour force by 31 May 2020.
Sweden	Introduction of *Korttidsarbete*, without condition on turnover decline. The applications cover 9.4% of the labour force by 2 June 2020.
Switzerland	Extension of *Kurzarbeit / Chômage partiel* by easing administration. There are no conditions on firm turnover. The applications cover 39.4% of the labour force by 20 May 2020.
Turkey	Extension of *Kisa Çalisma* by increasing coverage and easing administration. There are no conditions on firm turnover. The applications cover 8% of the labour force by 30 April 2020.
United Kingdom	Introduction of *Coronavirus Job Retention Scheme*. There are no conditions of firm turnover The applications cover 24.7% of the labour force by 29 May 2020.

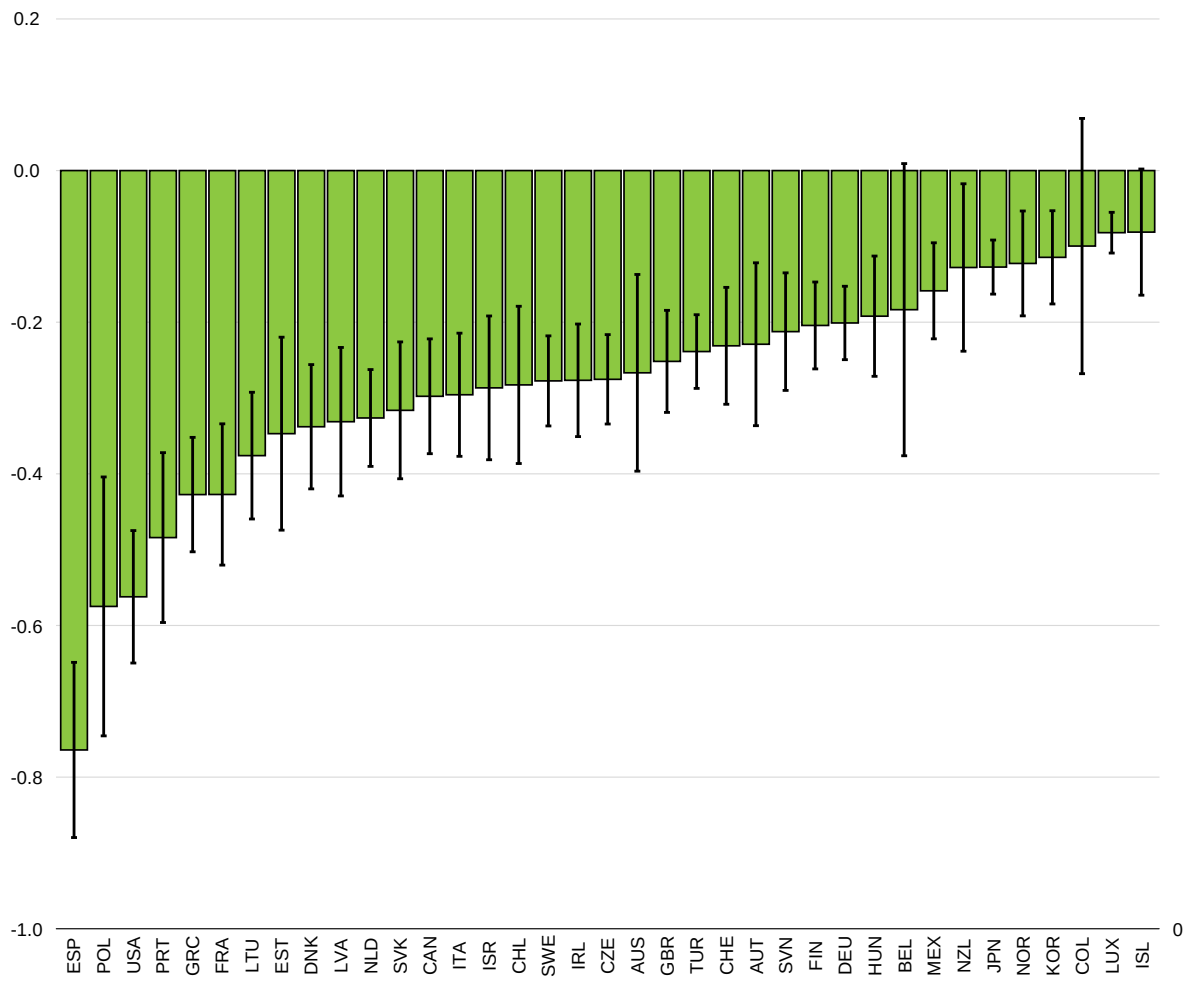
Panel B. Unemployment insurance-based countries

Country	Available information job retention schemes
Colombia	No job retention scheme is available.
Estonia	Modification of *Unemployment Insurance Fund* so it pays for short-time work, with strong conditions. Information on number of applications is currently unavailable.
Greece	The available scheme is a hybrid between unemployment insurance and job retention scheme and has complex conditions.
Hungary	Introduction of *Wage subsidy*, with strong conditions. Information on number of applications is currently unavailable.
Korea	Extension of *Employment Insurance* by increasing coverage and increasing subsidy, with strong conditions. Information on number of applications is currently unavailable.
Latvia	Introduction of *Downtime allowance*, with strong conditions. Information on number of applications is currently unavailable.
Mexico	No job retention scheme is available.
Poland	Introduction of *Tarcza antykryzysowa*, with strong conditions. Information on number of applications is currently unavailable.
United States	No federal scheme is available and applications to state-level schemes is limited. The applications to state-level schemes cover 0.1% of the labour force by 9 May 2020.

Note: Information in the table refers to the end of May or the nearest available date. Data on applications for job retention schemes are taken from ministerial publications or statements. Actual take-up may be lower than the number of applications as only a subset of applying firms actually take up short-time work. The details of the schemes were obtained principally by relying on expert opinion of the OECD country desks and OECD COVID-19 Policy Tracker.

Source: OECD COVID-19 Policy Tracker; Additionally: Australia: Parliament, Treasury of the Australian Government; Austria: WKO, Ministry of Labour, Family and Youth; Belgium: National Employment Office (ONEM); Canada: Government of Canada; Chile: Ministry of Labour and Social Security; Czech Republic: Ministry of Labour and Social Affairs; Denmark: STAR, Business Affairs Ministry; Finland: Finnish Government; France: DARES, Ministry of Labour; Germany: Arbeitsagentur; Iceland: Government of Iceland; Ireland: Citizens Information, Revenue; Italy: INPS; Netherlands: Government of the Netherlands; New Zealand: New Zealand Government, Ministry of Social Development; Norway: Ministry of Labour and Welfare, Norwegian Labour and Welfare Administration (NAV); Portugal: Directorate for Employment and Work Relations, MTSS; Slovakia: Ministry of Labour, Social Affairs, and Family; Slovenia: Government of Slovenia; Spain: Wolters Kluwer, State Public Employment Service (SEPE); Sweden: Agency for Economic and Regional Growth; Switzerland Secretariat for Economic Affairs, Federal Council; Turkey: ISKUR; United Kingdom: Gov.uk; United States: Bureau of Labor Statistics, Department of Labor.

Annex Figure 2.B.1. Okun coefficients



Note: The Okun coefficients are based on the following country-specific equations estimated over the sample period 2000q1-2019q4: $\Delta U_q = \alpha + \beta_0 \Delta \log(GDP_q) + \beta_1 \Delta \log(GDP_{q-1}) + \beta_2 \Delta \log(GDP_{q-2}) + \varepsilon_q$; where U is the unemployment rate in quarter q, GDP is the real GDP, β are the Okun coefficients and ε is the error term. The bars show the sum of β_0, β_1, β_2. The whiskers show the 90% confidence intervals.
Source: OECD calculations.

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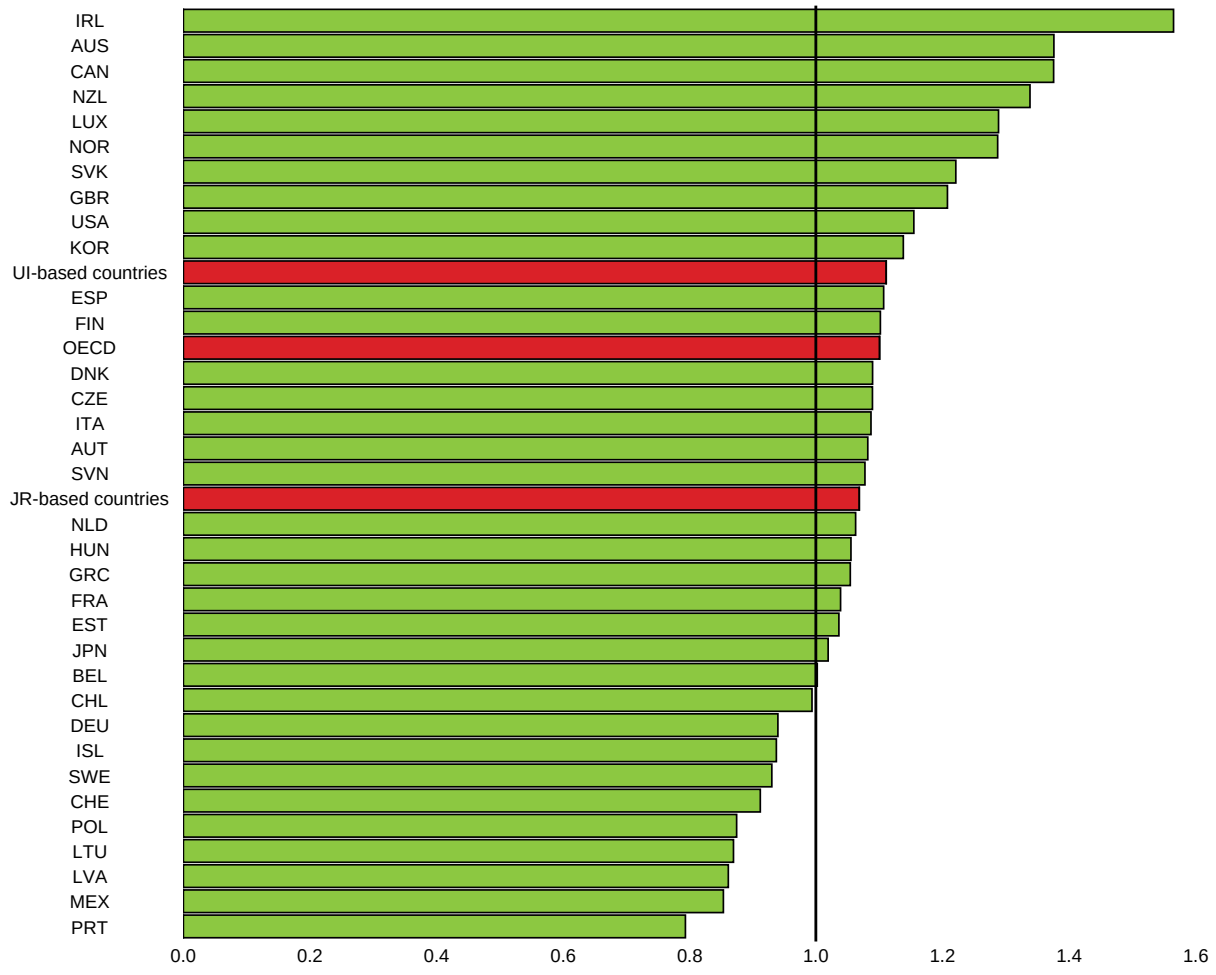
Annex Figure 2.B.2. Employment intensity of shutdown industries

Ratio of affected employment to affected GDP



Note: A value above one implies that the share of the shutdown industries in employment is larger than the share of the shutdown industries in GDP. Shares of affected GDP are based on OECD (2020), assuming shutdowns of varying degrees in 9 industries. Employment shares are calculated based on the same methodology. UI-based and JR-based are, respectively, the averages of unemployment insurance-based and job retention-based countries.
Source: OECD calculations based on OECD (2020).

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3 Developments in individual OECD and selected non-member economies

Argentina

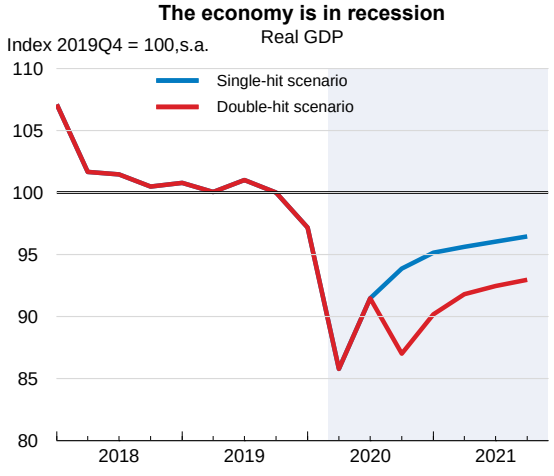
When the COVID-19 pandemic hit Argentina, the economy was already in recession and uncertainty was high, in particular regarding the restructuring of the high public debt. While the timely containment measures mitigated the spread of the virus, they reduced production capacity and domestic demand. With the gradual lifting of the lockdown, domestic demand will recover, but remain subdued due to higher unemployment and lower household incomes. A significant rebound of investment will depend on a successful restructuring of public debt. GDP is projected to fall by around 10% in 2020 in the event of a second virus outbreak and another dip in economic activity later in the year (the double-hit scenario). If this does not occur, a faster recovery is possible, with GDP declining by around 8¼ per cent in 2020.

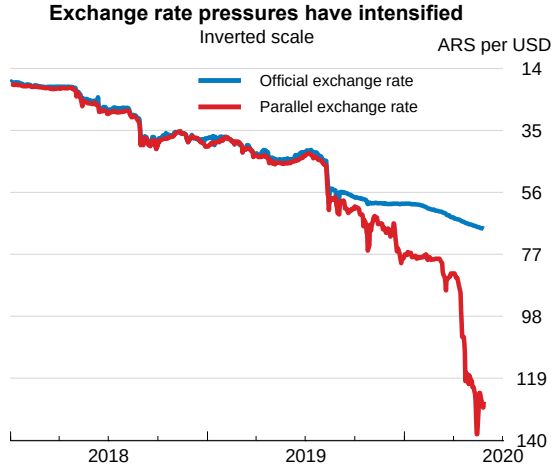
Bold and timely measures have been undertaken to contain the pandemic and support households and firms, and should be repeated in event of a second outbreak. Without access to financial markets, the central bank is contributing to the financing of the fiscal deficit, which puts additional pressures on inflation and the exchange rate. A successful restructuring of the high public debt would alleviate these pressures, but further efforts might be required to strengthen the sustainability of public finances. Improvements in public spending efficiency should be the main tool to achieve this, supported by a thorough cost-benefit evaluation of special regimes, exemptions and loopholes in the tax system. Maintaining and extending the conditional cash transfer programme is key to reducing poverty and providing a social safety net for households depending on informal work.

The spread of the virus has been contained

The COVID-19 pandemic reached Argentina in early March, later than countries in Asia and Europe. The government took decisive and early action by ordering a complete confinement of the population as of March 20, which has significantly slowed the increase in the number of infected people. Recently, case numbers have risen in main urban areas, in particular in poor neighbourhoods where population density is high and compliance with confinement measures is more complicated.

Argentina





Source: Refinitiv; Ámbito.com and OECD Economic Outlook 107 database.

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Argentina: Demand, output and prices (double-hit scenario)

Argentina: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices ARS billion	Percentage changes, volume (2004 prices)				
GDP at market prices	8 228.2	2.7	-2.5	-2.2	-10.1	1.7
Private consumption	5 407.7	4.0	-2.4	-6.4	-12.1	2.1
Government consumption	1 452.6	2.7	-3.3	-1.5	-0.5	3.5
Gross fixed capital formation	1 174.4	12.2	-5.7	-15.9	-30.1	-5.1
Final domestic demand	8 034.7	4.9	-3.1	-7.0	-12.7	1.5
Stockbuilding[1]	279.0	1.1	-0.5	-2.3	0.7	0.3
Total domestic demand	8 313.7	6.0	-3.4	-8.7	-11.0	1.6
Exports of goods and services	1 030.7	1.7	-0.7	9.4	-9.3	0.4
Imports of goods and services	1 116.3	15.4	-4.7	-18.7	-13.2	0.1
Net exports[1]	- 85.5	-1.9	0.6	4.4	0.4	0.0
Memorandum items						
GDP deflator	_	26.0	40.7	51.5	52.8	44.5
Current account balance (% of GDP)	_	-4.9	-4.8	-0.5	0.5	0.7

1. Contributions to changes in real GDP, actual amount in the first column.
Source: OECD Economic Outlook 107 database.

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The country has around 8500 intensive care units, which is similar to Southern European countries in per capita terms. However, access varies significantly across regions and modalities of healthcare coverage, which are generally correlated with income. Twelve emergency hospitals are under construction and health workers are receiving a monthly bonus, the equivalent of USD 75, from April until July. The government is cooperating with domestic firms and laboratories to increase their supply of respiratory equipment and testing facilities, and decentralised testing is conducted throughout the country. Imports of medical supplies are exempt from import duties, and prices for food, personal care, drugs and medical products are fixed at their levels observed early March.

The lockdown and border closures are currently expected to last until 28 June. All schools and universities as well as shops and public spaces are closed; only essential production and services activities remain open. Provincial governments were given the authority to ease lockdown measures in late April and many provinces have started to lift the confinement gradually.

Economic activity has been hit hard

COVID-19-related turbulence in international financial markets reached Argentina well before the lockdown, putting pressure on the parallel exchange rate and on stock prices. Risk spreads reached 4000 basis points and investment stalled. Confinement measures strongly affected supply and demand in many sectors, particularly in entertainment, transport, restaurants and hotels, causing activity to drop by 15%, according to OECD benchmark estimates. Falling household incomes weigh on private consumption. Automotive and retail sales fell by almost 50% in March, with textiles, shoes and furniture showing the largest reductions, and consumer confidence related to durables and real estate decreasing strongly. Strict capital controls are keeping the official exchange rate stable, but high inflation of 50% per annum and strong devaluations in the region have led to a real appreciation that is hurting exports. At the same time, the gap between the official and parallel exchange rates has widened significantly, and the latter is now more than twice the former.

Argentina: Demand, output and prices (single-hit scenario)

Argentina: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices ARS billion	Percentage changes, volume (2004 prices)				
GDP at market prices	8 228.2	2.7	-2.5	-2.2	-8.3	4.1
Private consumption	5 407.7	4.0	-2.4	-6.4	-9.7	6.3
Government consumption	1 452.6	2.7	-3.3	-1.5	-0.7	-0.3
Gross fixed capital formation	1 174.4	12.2	-5.7	-15.9	-28.4	-0.4
Final domestic demand	8 034.7	4.9	-3.1	-7.0	-10.9	4.4
Stockbuilding[1]	279.0	1.1	-0.5	-2.3	0.6	0.3
Total domestic demand	8 313.7	6.0	-3.4	-8.7	-9.2	4.4
Exports of goods and services	1 030.7	1.7	-0.7	9.4	-7.8	3.0
Imports of goods and services	1 116.3	15.4	-4.7	-18.7	-11.6	4.4
Net exports[1]	- 85.5	-1.9	0.6	4.4	0.4	-0.1
Memorandum items						
GDP deflator	_	26.0	40.7	51.5	53.6	46.8
Current account balance (% of GDP)	_	-4.9	-4.8	-0.5	0.5	0.6

1. Contributions to changes in real GDP, actual amount in the first column.
Source: OECD Economic Outlook 107 database.

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The government is supporting the economy

To cushion the social impact of the crisis and support domestic demand, the government has provided income support for poor households and retirees as well as self-employed and informal workers through one-off bonuses and in-kind payments (1.1% of GDP). Employers are not allowed to fire workers for a period of 120 days and need to pay 75% of regular salaries for confined workers who cannot telework. Unemployment insurance has been reinforced. The firms most affected by the crisis receive wage subsidies of 50% capped at two times minimum wages, and their payroll tax payments are reduced. Public and private banks have been encouraged to provide working capital loans at reduced rates, particularly for SMEs, and the self-employed receive zero-interest loans. The central bank incentivises private lending through lower reserve requirements for lending to households or SMEs, and temporary easing of bank provisioning needs, bank loan classification rules, and limits to bank holdings of central bank paper.

The recovery will be slow

Severe macroeconomic imbalances including persistently high inflation, a high fiscal deficit and unsustainably high public debt make the economy particularly poorly equipped to deal with a large negative shock and imply a slow recovery. The support measures are helping during the emergency, but fiscal space for further support is severely limited and monetisation of the deficit implies further inflation risks. Gross public debt is projected to approach 83% of GDP at the end of 2020. Domestic demand will stay subdued due to rising unemployment, lower real wages and an increasing number of corporate bankruptcies. GDP is projected to fall by around 10% in 2020 in the double-hit scenario. Preventing a second virus outbreak would avoid another dip in economic activity and allow a somewhat faster recovery with GDP declining by around 8¼ per cent in 2020. Downside risks include reduced access to finance for corporates in the context of a possible sovereign debt default, as domestic capital markets are severely under-developed. Inflation risks are substantial and call for prudent monetary policy. Pressures on the official exchange rate could intensify and trigger further depreciation, which would feed back into higher inflation but also support exports. Manufacturing exports would suffer from a deeper-than-expected recession in neighbouring Brazil. On the upside, a swift recovery in China could lift prices for Argentina's

agricultural commodity and food exports, whose relatively mild declines have underpinned recent improvements in Argentina's terms of trade.

The country faces important policy challenges

The efficiency of emergency spending could be further boosted through more transparent allocation criteria for firm support measures and a focus on illiquid firms that were solvent before the crisis. Maintaining and expanding the successful conditional cash transfer programme "Asignación Universal por Hijo" is key to constructing an effective social safety net for vulnerable households dependent on informal work. To reduce the risk of a second virus outbreak, a national tracing, testing and isolation strategy should accompany the gradual lifting of confinement measures. A credible medium-term fiscal strategy based on improvements in public spending efficiency and a reduction of the fiscal deficit after the pandemic would facilitate a successful restructuring of public debt and help rebuild macroeconomic stability. This would in turn reduce the need for monetary financing, reduce inflationary and exchange rate pressures and allow a deepening of domestic financial markets.

Australia

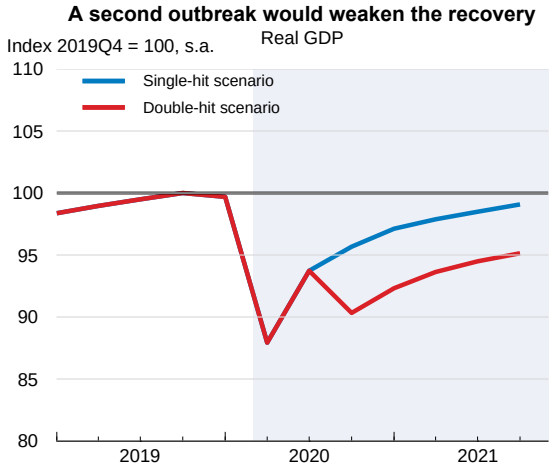
Economic activity collapsed in the second quarter of 2020, as lockdown measures to fight the pandemic required many businesses to suspend activities and consumers to stay home. However, confinement has been less strict than elsewhere thanks to the relatively mild virus outbreak. Massive macroeconomic policy support, including a temporary wage subsidy, is limiting the economic shock. Most economic restrictions are planned to be unwound by July. However, should widespread contagion resume, with a return of lockdowns, confidence would suffer and cash-flow would be strained. In that double-hit scenario, GDP could fall by 6.3% in 2020. Even in the absence of a second outbreak, GDP could fall by 5% in 2020.

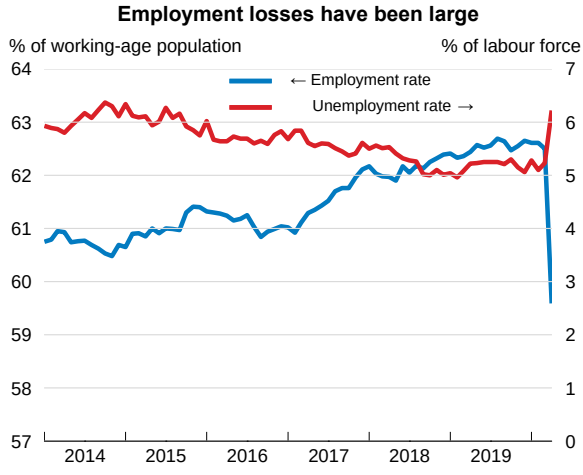
There is ample fiscal space to support the economic recovery as needed. The scarring effects of unemployment – especially for young workers – should be alleviated through education and training, as well as enhancing job search programmes. Firms should continue to be supported, including through expanded loan guarantees, accompanied by expedited insolvency procedures. The authorities should be considering further stimulus that may be needed once existing measures expire at the end of the third quarter 2020. Such support should focus on improving resilience and social and physical infrastructure, including strengthening the social safety net and investing in energy efficiency and social housing.

Australia has been relatively spared, so far, from the COVID-19 outbreak

Australia's first cases were identified in two eastern states on 25 January. Infections rose sharply during the first three weeks of March. However, testing expanded quickly and the number of new cases appears to have peaked in late March. Demands on the health system have been manageable, helping to contain the number of deaths at comparatively low levels.

Australia





Source: OECD Economic Outlook 107 database; and OECD Short-Term Labour Market Statistics.

StatLink https://doi.org/10.1787/888934138986

Australia: Demand, output and prices (double-hit scenario)

Australia: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices AUD billion	Percentage changes, volume (2017/2018 prices)				
GDP at market prices	1 703.5	2.5	2.8	1.8	-6.3	1.0
Private consumption	983.3	2.5	2.6	1.5	-9.5	1.1
Government consumption	319.3	3.9	4.0	5.3	5.7	3.9
Gross fixed capital formation	417.3	3.6	2.5	-2.3	-11.0	-2.1
Final domestic demand	1 719.9	3.0	2.9	1.3	-6.9	1.0
Stockbuilding[1]	- 2.6	-0.1	0.1	-0.2	-0.3	0.2
Total domestic demand	1 717.3	2.9	2.9	1.0	-7.2	1.2
Exports of goods and services	337.1	3.7	5.0	3.1	-6.9	2.1
Imports of goods and services	351.0	7.8	4.2	-1.2	-11.2	3.0
Net exports[1]	- 13.9	-0.9	0.2	1.0	0.7	-0.1
Memorandum items						
GDP deflator	_	3.6	2.3	3.1	1.2	0.7
Consumer price index	_	2.0	1.9	1.6	0.1	0.7
Core inflation index[2]	_	1.7	1.7	1.6	0.8	0.8
Unemployment rate (% of labour force)	_	5.6	5.3	5.2	7.6	8.8
General government financial balance (% of GDP)	_	-0.7	0.1	0.0	-12.2	-6.8
General government gross debt (% of GDP)	_	43.6	43.5	45.8	62.4	65.8
Current account balance (% of GDP)	_	-2.6	-2.0	0.6	1.5	1.1

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137219

Initially, containment measures limited travel to Australia from specific countries. However, by 20 March, only residents and immediate family members were allowed entry, with self-isolation requirements. Several states discouraged interstate travel and remote indigenous communities closed entry to protect their more vulnerable populations. As the virus spread during March, distancing measures ramped up. By 29 March, gatherings of more than two people (except households) were forbidden and some non-essential business activities and places of public gathering were closed. Some states imposed stricter conditions. To support the health system, governments provided additional funding, reoriented service delivery methods and entered into partnerships with private healthcare providers. In late April, a voluntary app was launched to help track and trace infections. In May, governments began relaxing earlier measures with the aim of removing most economic restrictions by July.

Activity has contracted sharply due to the pandemic

The virus struck an economy experiencing slower investment and the effects of severe drought and catastrophic bushfires, ending a 29-year economic expansion. Business and consumer sentiment plunged, beyond the depths of the global financial crisis, but appear to have partly recovered with the easing of restrictions in May. New temporary wage subsidies – the “JobKeeper” programme – are stemming unemployment. Nevertheless, job losses have been considerable, particularly in hospitality and entertainment. The measured official unemployment rate surged to 6.2% in April, accompanied by a significant drop in the participation rate. Services exports – including tourism and education - have fallen particularly sharply in recent months.

Australia: Demand, output and prices (single-hit scenario)

Australia: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices AUD billion	Percentage changes, volume (2017/2018 prices)				
GDP at market prices	1 703.5	2.5	2.8	1.8	-5.0	4.1
Private consumption	983.3	2.5	2.6	1.5	-7.6	5.7
Government consumption	319.3	3.9	4.0	5.3	5.4	3.3
Gross fixed capital formation	417.3	3.6	2.5	-2.3	-9.8	1.8
Final domestic demand	1 719.9	3.0	2.9	1.3	-5.6	4.3
Stockbuilding[1]	- 2.6	-0.1	0.1	-0.2	-0.2	0.2
Total domestic demand	1 717.3	2.9	2.9	1.0	-5.8	4.5
Exports of goods and services	337.1	3.7	5.0	3.1	-5.4	5.1
Imports of goods and services	351.0	7.8	4.2	-1.2	-9.5	7.0
Net exports[1]	- 13.9	-0.9	0.2	1.0	0.7	-0.2
Memorandum items						
GDP deflator	_	3.6	2.3	3.1	1.3	1.0
Consumer price index	_	2.0	1.9	1.6	0.2	1.4
Core inflation index[2]	_	1.7	1.7	1.6	0.9	1.2
Unemployment rate (% of labour force)	_	5.6	5.3	5.2	7.4	7.6
General government financial balance (% of GDP)	_	-0.7	0.1	0.0	-10.2	-3.1
General government gross debt (% of GDP)	_	43.6	43.5	45.8	57.1	57.7
Current account balance (% of GDP)	_	-2.6	-2.0	0.6	1.4	1.0

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137238

Expansionary macroeconomic policies are supporting households and firms

Between March and May, federal and state governments announced direct fiscal support amounting to over 8% of 2020 GDP, concentrated in the second and third quarters of 2020. The JobKeeper wage subsidy is equivalent to over 3½ per cent of GDP. Cash-flow assistance for firms and a doubling of the value of unemployment benefits with expanded eligibility are also supporting incomes. Other announcements include increased health spending, loan guarantees for small businesses, moratoriums on evictions and easier access to retirement savings. The central bank cut its policy rate by 50 basis points during March, to 0.25%, and introduced a target for the yield on 3-year Australian government bonds of 0.25%, alongside other measures. The financial services regulator eased prudential regulations, enabling banks to offer 3-6 month loan payment holidays to affected SMEs and households.

A fast recovery is possible but damage will remain

Economic restrictions are assumed to continue to unwind gradually and income support measures to expire in September. In the double-hit scenario, the reinstatement of restrictions is assumed to be accompanied by further income support and other policies at a reduced scale. Continued restrictions on international travel throughout 2020, together with Australia's geography, imply that a second outbreak could be smaller than elsewhere.

The economic contraction is concentrated in the second quarter. Activity recovers as restrictions ease and consumers' options expand. However, lost earnings, higher unemployment levels, and ongoing caution temper consumption. Reduced demand, more fragile finances and uncertainty weigh on business investment. These headwinds are larger in the double-hit scenario due to prolonged financial stress,

together with greater uncertainty, whereas confidence aids a faster recovery in the single-hit scenario. Consequently, 2020 GDP is projected to fall by 6.3% in the double-hit scenario and 5% in the single-hit scenario. In both scenarios, waivers of childcare and other fees, together with lower fuel prices, are temporarily lowering consumer prices. The underlying inflation rate will remain subdued. A key risk to the outlook is that high household indebtedness results in debt-servicing problems, potentially amplified by a housing market downturn, and derails the recovery. On the other hand, the recovery would be faster if sentiment rapidly rebounds.

Further policy measures would help secure the recovery

Australia's ample fiscal space permits a strong response to a second outbreak or if the recovery falters. In particular, some income support measures may need to be extended beyond their September expiry date. To bolster employment growth, the government plans to improve the skills training system and encourage industrial relations reform. It could also further promote reskilling and upskilling through adult education and enhance job search programmes. Expanded loan guarantees, coupled with accelerated insolvency processes, could reduce scarring for entrepreneurs and facilitate a more dynamic recovery. The government has recently announced plans to support particularly hard-hit sectors, including a stimulus package for construction. The authorities should also ensure that the social safety net is adequate and consider further investment in energy efficiency improvements and social housing. Continuing efforts to test, track and trace, as well as promoting digital means of accessing healthcare, could improve outcomes and enhance preparedness for further outbreaks.

Austria

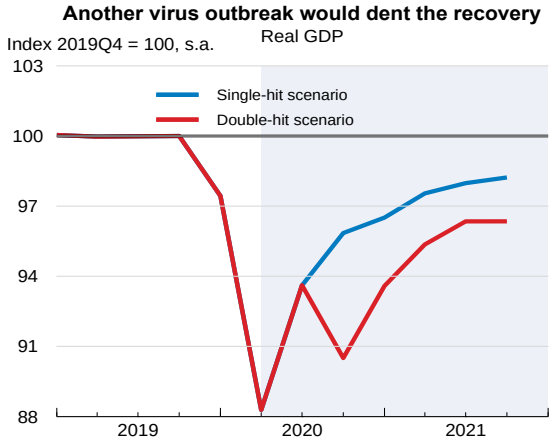
The COVID-19 outbreak has been relatively contained so far and the lockdown started to be gradually lifted in mid-April. GDP is projected to contract by 6.2% in 2020 if there are no further virus outbreaks (the single-hit scenario), and by over 7% if there is a renewed outbreak later this year (the double-hit scenario). Economic activity will pick up as confinement measures ease, but the economic recovery will nevertheless take time, with output still below its pre-crisis level by the end of 2021. Unemployment, and the number of people on short-time work schemes, has soared and is projected to remain high through the projection period. Given additional spending as part of the policy response and weaker tax revenues, a large government budget deficit will open up. The comparatively low rate of inflation is expected to slow in the near term, picking up somewhat in 2021.

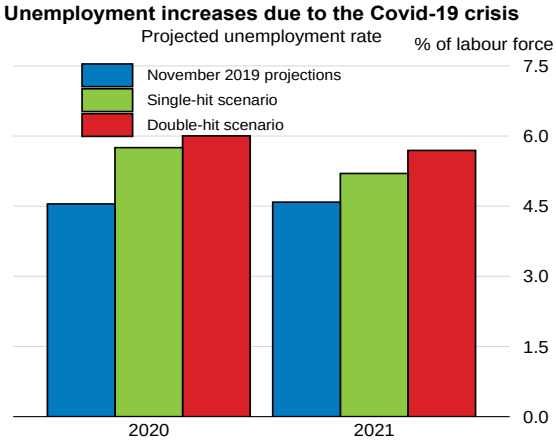
The swift policy response has ensured ample support for firms and households through liquidity injections, tax deferrals, credit guarantees and the short-time working scheme. Policymakers should ensure that the support programmes evolve according to the health and economic situation and continue to complement and replace existing broad measures, with more focussed support to limit adverse side-effects on the efficient allocation of resources.

Restrictions are being gradually lifted after the lockdown

The COVID-19 virus reached Austria in the early part of the year. The number of cases peaked at the end of March and has declined steadily since then. Due to a health system with relatively high capacity and very good accessibility, fatalities relative to population due to COVID-19 have so far been low. With a relatively large elderly population, a key challenge has been the propagation of the virus in care homes.

Austria





Source: OECD Economic Outlook 107 database

StatLink https://doi.org/10.1787/888934139005

Austria: Demand, output and prices (double-hit scenario)

Austria: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices*	357.4	2.6	2.3	1.5	-7.5	3.2
Private consumption	186.9	1.5	1.1	1.3	-7.4	3.7
Government consumption	70.3	1.1	0.8	0.7	2.2	1.4
Gross fixed capital formation	82.5	3.9	3.9	2.8	-8.0	3.8
Final domestic demand	339.7	2.0	1.7	1.5	-5.6	3.2
Stockbuilding[1]	3.8	0.1	0.2	0.1	-1.5	0.0
Total domestic demand	343.5	2.1	1.8	1.6	-7.0	3.2
Exports of goods and services	187.8	5.2	5.6	2.6	-11.9	9.7
Imports of goods and services	173.8	4.9	4.5	2.7	-11.5	10.2
Net exports[1]	14.0	0.3	0.8	0.1	-0.6	0.1
Memorandum items						
GDP deflator	_	1.1	1.7	1.7	0.6	0.8
Harmonised index of consumer prices	_	2.2	2.1	1.5	0.8	1.1
Harmonised index of core inflation[2]	_	2.1	1.8	1.7	0.9	1.0
Unemployment rate (% of labour force)	_	5.5	4.8	4.5	6.0	5.7
General government financial balance (% of GDP)	_	-0.8	0.2	0.7	-9.8	-5.5
General government gross debt (% of GDP)	_	102.0	96.6	94.7	110.0	113.1
General government debt, Maastricht definition (% of GDP)	_	78.1	73.9	70.4	85.7	88.7
Current account balance (% of GDP)	_	1.5	2.3	2.6	2.2	1.9

* Based on seasonal and working-day adjusted quarterly data; may differ from official non-working-day adjusted annual data.
1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137257

The Austrian authorities enforced a country-wide lockdown from mid-March to mid-April. The lockdown comprised closures of schools and universities, cancellation of public events and operational restrictions on most type of businesses. In the second half of April, the lockdown was eased gradually. Schools and shops not already reopened resumed activity in the beginning of May. Residents are obliged to wear a mask in public transport and public indoor spaces, such as shops. Restaurants and hotels reopened in mid-May and end of May respectively. Given that German tourists made up around 37% of all overnight stays in Austria in 2019, an envisaged reopening of borders to Germany before the summer would provide some relief for the Austrian tourism sector.

Unemployment and short-time work have soared

According to a recent flash-estimate, the effective shutdown of many sectors led to a contraction of 2.6% in GDP in the first quarter of 2020 compared to the previous quarter. The number of registered unemployed workers increased to over 500 thousand (end of April) from around 350 thousand at the end of 2019. This will lead to a jump in the unemployment rate from 4.5% to 5.5%. There were 1.4 million applications filed for short-time work schemes. In addition to the manufacturing sectors, which are highly integrated in European supply chains, the hospitality sector, which contributes around 7-8% to total value added, is heavily affected. The number of tourist overnight stays diminished drastically in March, by around 60% relative to February and by 9% from the same period last year.

Austria: Demand, output and prices (single-hit scenario)

Austria: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices*	357.4	2.6	2.3	1.5	-6.2	4.0
Private consumption	186.9	1.5	1.1	1.3	-6.1	4.4
Government consumption	70.3	1.1	0.8	0.7	2.0	1.0
Gross fixed capital formation	82.5	3.9	3.9	2.8	-7.0	5.8
Final domestic demand	339.7	2.0	1.7	1.5	-4.7	4.0
Stockbuilding[1]	3.8	0.1	0.2	0.1	-1.5	0.0
Total domestic demand	343.5	2.1	1.8	1.6	-6.1	4.1
Exports of goods and services	187.8	5.2	5.6	2.6	-8.7	9.4
Imports of goods and services	173.8	4.9	4.5	2.7	-9.0	9.9
Net exports[1]	14.0	0.3	0.8	0.1	-0.1	0.1
Memorandum items						
GDP deflator	_	1.1	1.7	1.7	0.5	0.8
Harmonised index of consumer prices	_	2.2	2.1	1.5	0.8	1.3
Harmonised index of core inflation[2]	_	2.1	1.8	1.7	1.0	1.2
Unemployment rate (% of labour force)	_	5.5	4.8	4.5	5.8	5.2
General government financial balance (% of GDP)	_	-0.8	0.2	0.7	-7.3	-3.2
General government gross debt (% of GDP)	_	102.0	96.6	94.7	106.7	107.2
General government debt, Maastricht definition (% of GDP)	_	78.1	73.9	70.4	82.4	82.9
Current account balance (% of GDP)	_	1.5	2.3	2.6	2.6	2.2

* Based on seasonal and working-day adjusted quarterly data; may differ from official non-working-day adjusted annual data.
1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137276

The policy response has been swift

The policy response entailed a significant fiscal stimulus. The authorities announced several measures to support businesses, households and the health sector in mid-March, which were accompanied by an easing of euro area monetary policy. The total COVID-19 budget envelope is EUR 38 billion (around 9% of GDP), including credit guarantees and tax deferrals, and is gradually being implemented and operationalised. Credit guarantees (up to EUR 9 billion) are provided for up to 100% of loan amounts to help businesses to prevent liquidity shortfalls. A tranche of initially EUR 4 billion was dedicated to fund disbursements on medical supplies, to support the care-taking system, hardship cases across particularly vulnerable businesses and financing of the short-term work scheme. Employers can reduce working hours to as low as 10%, while employees receive 80-90% of their regular pay. Due to a high number of applications, the funds for the short-time work scheme have already been increased to EUR 12 billion. In addition to these measures, the authorities announced a recovery package for the hospitality sector of EUR 500 million in mid-May.

GDP could contract by more than 7% in 2020

The lockdown led to a decline of around 30% of economic activity until it started to be eased. In case of a second outbreak of the virus, GDP would decline by over 7% in 2020, whereas in the single-hit scenario, which assumes no further outbreaks and that restrictions continue to be eased in the second half of the

year, GDP will decline by 6.2% in 2020. Trade and investment will remain particularly weak given continued uncertainty in both scenarios. Employment will recover and this will allow many workers on the short-time working scheme to get back to work. Nevertheless, at the end of 2021, unemployment will remain at 5.7% in the double-hit scenario and at 5.2% in the single-hit scenario. Inflation will weaken in the short run.

Risks remain high. In particular, the tourism sector is a key employer and exporter, but it consists mainly of SMEs, often family-owned and usually highly leveraged, implying rather small liquidity buffers. If confinement measures and travel restrictions continue to prevent tourists from travelling to Austria over the summer, a wave of insolvencies in that sector may follow, with adverse consequences on aggregate output, employment and exports.

Policymakers need to support the recovery

Policymakers need to support workers and firms while activity remains disrupted and during the recovery phase. However, they also need to ensure that well-intended policy measures do not entail adverse longer-run side effects, and be prepared to unwind public support in a timely manner. This concerns particularly the withdrawal of government guarantees for corporate loans. Policymakers should prevent otherwise viable firms from exiting the market if this is due solely to a temporary shortfall in liquidity. However, a prolonged government guarantee may increase fiscal costs and risk negative effects on the efficient allocation of resources and productivity from enterprises that only remain in business due to public support. Policymakers should instead focus on a fast resolution of insolvent firms, either through debt forgiveness or from conversion of corporate debt into equity. Policymakers should consider the possibility of re-adjusting the economy in a more sustainable and inclusive manner, for example by beginning to implement measures to counter climate change or using more digital services in education and government.

Belgium

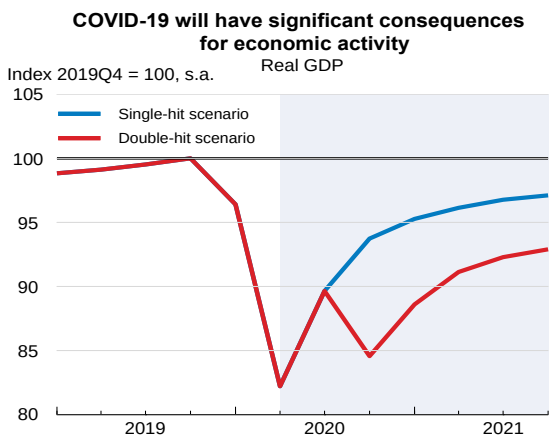
In case of a second pandemic wave later this year (the double-hit scenario), the contraction of GDP in 2020 is set to reach about 11%, but close to 9% if there is no further outbreak (the single-hit scenario). In both cases, GDP is projected to remain well below the pre-crisis level in end-2021. The recovery will be much weaker in the double-hit scenario due to larger permanent income and employment losses, as well as much weaker financial position of businesses, weighing further on consumption and investment.

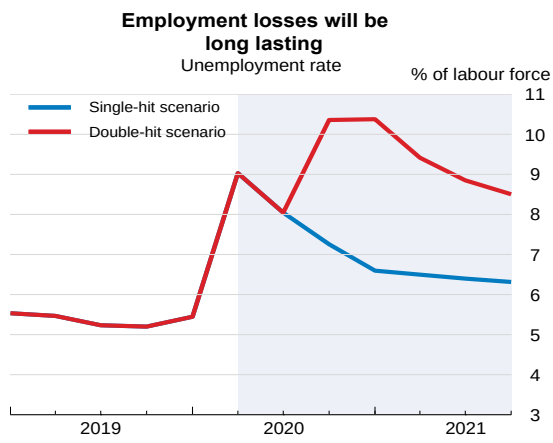
To avoid a resurgence of the pandemic, public authorities need to lift the confinement measures carefully, together with adequate controls on activity and an active strategy to test, trace and treat people. Smooth coordination between the different levels of government in the federal state is essential. While expanding the temporary unemployment scheme as much as necessary, the government should consider strengthening targeted support to viable businesses facing temporary liquidity shortages, including through better channelling a huge rise in household saving, in order to prevent massive bankruptcies.

The pandemic has been contained

The first COVID-19 cases were confirmed in early March and infections spread rapidly thereafter. The number of new confirmed cases reached its peak in early April, while the number of hospitalisations has declined by more than 80% since then. The healthcare system has coped well with the rising number of patients, especially those in intensive care in hospitals, while people in nursing homes were relatively more affected. So far, the government has provided additional resources in the form of a cash advance to hospitals (0.2% of GDP).

Belgium





Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934139024

Belgium: Demand, output and prices (double-hit scenario)

Belgium: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	430.2	1.9	1.5	1.4	-11.2	3.4
Private consumption	221.1	1.8	1.5	1.1	-15.8	6.5
Government consumption	100.1	0.0	1.0	1.8	-0.4	-0.3
Gross fixed capital formation	99.9	1.3	4.0	3.2	-20.4	6.4
Final domestic demand	421.1	1.3	2.0	1.8	-13.3	4.6
Stockbuilding[1,2]	4.0	-0.1	0.3	-0.4	0.3	0.1
Total domestic demand	425.1	1.2	2.2	1.3	-12.7	4.7
Exports of goods and services	341.6	5.3	1.2	1.1	-11.7	3.3
Imports of goods and services	336.5	4.4	2.1	1.0	-13.6	4.9
Net exports[1]	5.1	0.7	-0.7	0.1	1.5	-1.2
Memorandum items						
GDP deflator	_	1.7	1.5	1.5	0.5	0.1
Harmonised index of consumer prices	_	2.2	2.3	1.2	0.3	0.2
Harmonised index of core inflation[3]	_	1.5	1.3	1.5	0.9	0.4
Unemployment rate (% of labour force)	_	7.1	6.0	5.4	8.2	9.3
General government financial balance (% of GDP)	_	-0.7	-0.8	-1.9	-11.0	-8.3
General government gross debt (% of GDP)	_	120.6	118.5	121.6	143.2	147.8
General government debt, Maastricht definition (% of GDP)	_	101.8	99.9	98.7	120.3	124.9
Current account balance (% of GDP)	_	1.2	-1.4	-1.2	0.3	-1.0

1. Contributions to changes in real GDP, actual amount in the first column.
2. Including statistical discrepancy. Statistical discrepancy contributes to 5.3% in 2019 percentage changes.
3. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137295

The government introduced a nation-wide lockdown in mid-March. Citizens were required to stay at home, except for work and buying daily necessities. At the same time, non-essential shops and retail outlets were closed, while firms were obliged to close temporarily unless they could organise telework or ensure social distancing. These measures have been lifted sequentially from early May, while activities that require strong controls on the size of gathering are not allowed to reopen yet.

The economy has been hit hard

Economic activity has declined sharply since the nation-wide lockdown. Sales have declined by around one-third on average over the past several weeks. The decline in sales has been particularly severe in sectors such as restaurants and accommodations, with declines of more than 80%. In the projections, economic activity is estimated to have decreased by around a quarter during the lockdown compared to a normal period. Business sentiment has declined markedly, primarily in service sectors, while around 65% of businesses have postponed their investment plans. Currently, a quarter of all employees are on temporary unemployment. Consumer confidence has also declined markedly, while a quarter of households have incurred a loss of at least 10% of their income since the lockdown.

Belgium: Demand, output and prices (single-hit scenario)

Belgium: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	430.2	1.9	1.5	1.4	-8.9	6.4
Private consumption	221.1	1.8	1.5	1.1	-12.5	10.0
Government consumption	100.1	0.0	1.0	1.8	-0.9	0.2
Gross fixed capital formation	99.9	1.3	4.0	3.2	-15.9	11.8
Final domestic demand	421.1	1.3	2.0	1.8	-10.6	7.9
Stockbuilding[1,2]	4.0	-0.1	0.3	-0.4	0.3	0.0
Total domestic demand	425.1	1.2	2.2	1.3	-10.0	7.8
Exports of goods and services	341.6	5.3	1.2	1.1	-9.1	7.0
Imports of goods and services	336.5	4.4	2.1	1.0	-10.5	8.8
Net exports[1]	5.1	0.7	-0.7	0.1	1.1	-1.2
Memorandum items						
GDP deflator	_	1.7	1.5	1.5	0.5	0.5
Harmonised index of consumer prices	_	2.2	2.3	1.2	0.4	0.7
Harmonised index of core inflation[3]	_	1.5	1.3	1.5	1.0	0.8
Unemployment rate (% of labour force)	_	7.1	6.0	5.4	7.4	6.5
General government financial balance (% of GDP)	_	-0.7	-0.8	-1.9	-8.6	-3.8
General government gross debt (% of GDP)	_	120.6	118.5	121.6	138.2	135.3
General government debt, Maastricht definition (% of GDP)	_	101.8	99.9	98.7	115.3	112.4
Current account balance (% of GDP)	_	1.2	-1.4	-1.2	-0.1	-1.4

1. Contributions to changes in real GDP, actual amount in the first column.
2. Including statistical discrepancy. Statistical discrepancy contributes to 5.3% in 2019 percentage changes.
3. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137314

Well-targeted policy measures provide an effective stimulus

The federal government prepared a fiscal package of 1.7-2.1% of GDP in March, which mainly consists of deferrals of tax and social security payments, along with some direct income support measures. Benefits for those on temporary unemployment were increased and the so-called “replacement income” for the self-employed has been introduced, which together with compensations for businesses by regional authorities, are estimated to provide a stimulus of around 1% of GDP. The federal government and the financial sector introduced a guarantee scheme for new credits and credit lines of 10.7% of GDP, which may worsen the public finances further in the future if guarantees are called. The central bank has eased a number of prudential measures, including the removal of the counter-cyclical capital buffer. Also, the authorities made it possible to defer the repayment of credits for viable firms and the self-employed until end-September 2020.

The recovery will be delayed if the pandemic resurges

The economy is projected to be significantly affected by the pandemic. If the pandemic resurges, the already weakened economy would be less able to absorb another shock, increasing hysteresis effects. In both scenarios, the temporary unemployment measures would initially prevent massive employment losses. However, such schemes cannot be permanent and the unemployment rate will increase, in particular in the double-hit scenario, reaching historically high levels. Investment will recover only gradually, due to squeezed profits and heightened uncertainty, particularly in the double-hit scenario. Private

consumption will not recover strongly as households will be cautious to increase spending, resulting in a high saving ratio in both scenarios. With subdued demand, inflation will be very low in the two scenarios (0.7% and 0.2% in 2021). Public debt (Maastricht definition) will reach 112.4% of GDP and 124.9% of GDP by 2021 in the respective scenarios, undermining the consolidation achievements since the global financial crisis.

There are significant downside risks, since 27% of businesses report liquidity problems at a three-month horizon and 8% of businesses perceive solvency problems. On the upside, a faster exit from the pandemic than expected could lead to a stronger rebound.

Additional policy action may be needed

In order to prevent a massive rise in unemployment, as well as bankruptcy and impairment to the financial system, the government can extend the guarantee scheme to refinancing credits, or even provide bridging loans directly as already done by some regional authorities. In doing so, it needs to target otherwise viable firms facing short-term liquidity problems; some 7% of SMEs and 3% of large companies were already at the highest risk of default due to their indebtedness and low repayment capacity before the crisis. In order to help ensure a strong recovery, the government may consider a way to channel the significant rise in private savings, for instance, by strengthening tax credits for investment in SMEs. The government should avoid introducing a regressive tax measure such as a reduced VAT rate for restaurants and the accommodation sector, which should be aided instead by increasing compensations already provided by regional authorities if necessary. The different governments should also increase investment spending favouring the greening of the economy, aiming in particular to reduce air pollution, whose high levels pose severe health risks, as the current pandemic has shown.

Brazil

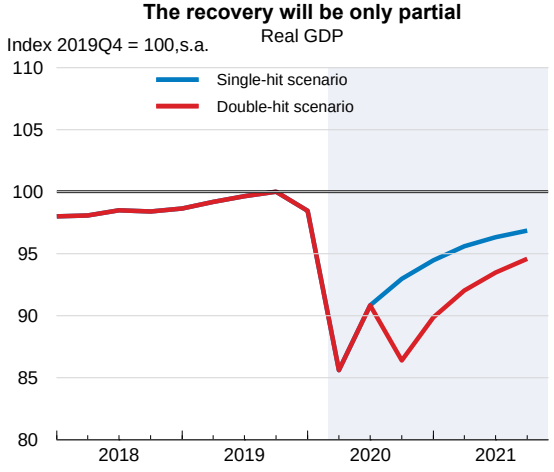
The economy was finally recovering from a long recession when the COVID-19 outbreak hit, and is now projected to suffer a further deep recession. GDP is expected to fall by 9.1% in 2020 in the double-hit scenario, which assumes that a second wave of the pandemic will take place in the last quarter of 2020, and 7.4% in the single-hit scenario, which assumes there are no further outbreaks. As lockdown measures are eased and activity resumes, the economy is projected to recover slowly and partially, but some jobs and firms will not be able to survive. Unemployment will reach historic highs before receding gradually.

The economic policy response was timely and decisive, making a real difference for millions of vulnerable households, including those without formal employment and social protection. This support should continue for as long as the pandemic restricts earning opportunities. At the same time, the limited fiscal space, exacerbated by the COVID19-related increase in public debt, calls for keeping the fiscal response temporary, and resuming efforts toward improving fiscal sustainability and public spending efficiency afterwards. An exception to this should be the welcome funding increase for conditional cash transfers, which can be the pillar of a more effective social safety network, including for those not covered by unemployment insurance in the formal sector.

Local lockdown measures are in place, but the pandemic is still spreading rapidly

Brazil recorded the first COVID-19 case in late February. Reported infections surpassed 500 thousand in late May. Deaths are increasing rapidly, with daily fatalities still trending upward. While the city of São Paulo was the initial epicentre of the outbreak, the virus has now spread around the country. Capacities in intensive care units (ICU) are estimated at 15.6 ICU beds per 100 thousand inhabitants, but there are serious shortages in some regions, including the northern and north-eastern regions. The public healthcare system, on which two-thirds of Brazilians depend, is under particular strain. Intensive care capacities have been almost fully occupied in some states since early May, and waiting lists have formed.

Brazil 1



Source: FGV; CEIC; CNI; OECD Economic Outlook 107 database; and Refinitiv.

StatLink https://doi.org/10.1787/888934139043

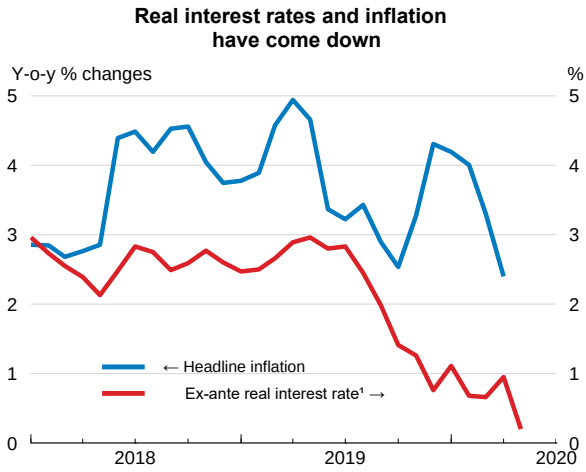
Brazil: Demand, output and prices (double-hit scenario)

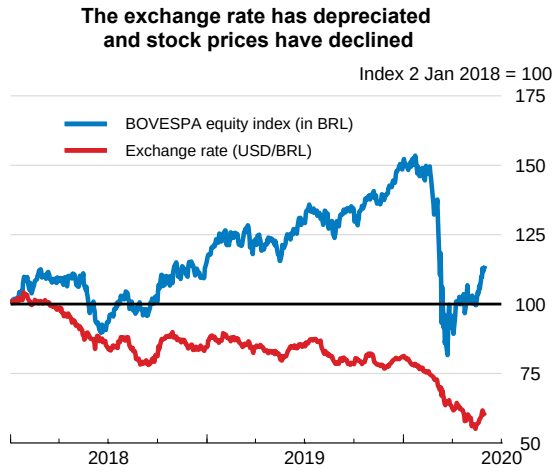
Brazil: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices BRL billion	Percentage changes, volume (2000 prices)				
GDP at market prices	6 269.3	1.3	1.3	1.1	-9.1	2.4
Private consumption	4 028.1	1.9	2.1	1.8	-13.0	5.5
Government consumption	1 277.6	-0.7	0.4	-0.4	2.1	2.8
Gross fixed capital formation	973.3	-2.6	3.9	2.3	-13.2	-9.5
Final domestic demand	6 279.1	0.7	2.0	1.4	-10.0	2.7
Stockbuilding[1]	- 34.8	0.7	-0.3	0.2	-0.1	0.0
Total domestic demand	6 244.3	1.6	1.7	1.6	-10.1	2.7
Exports of goods and services	781.6	5.2	3.3	-2.5	-17.8	-5.8
Imports of goods and services	756.5	7.2	7.5	1.1	-25.4	-5.4
Net exports[1]	25.1	-0.2	-0.5	-0.5	1.2	-0.2
Memorandum items						
GDP deflator	_	3.7	3.3	4.2	3.8	3.3
Consumer price index	_	3.4	3.7	3.7	3.0	2.6
Private consumption deflator	_	3.4	2.9	3.8	2.4	3.4
General government financial balance (% of GDP)	_	-7.8	-7.1	-5.9	-15.1	-8.6
Current account balance (% of GDP)	_	-0.7	-2.2	-2.7	-1.5	-1.9

1. Contributions to changes in real GDP, actual amount in the first column.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137333

Brazil 2





1. The ex-ante real interest rate is calculated as SELIC rate minus inflation expectations one year ahead.
Source: CEIC; Central Bank of Brazil; and OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934139062

Brazil: Demand, output and prices (single-hit scenario)

Brazil: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices BRL billion	Percentage changes, volume (2000 prices)				
GDP at market prices	6 269.3	1.3	1.3	1.1	-7.4	4.2
Private consumption	4 028.1	1.9	2.1	1.8	-10.4	7.0
Government consumption	1 277.6	-0.7	0.4	-0.4	1.3	-0.9
Gross fixed capital formation	973.3	-2.6	3.9	2.3	-10.9	1.0
Final domestic demand	6 279.1	0.7	2.0	1.4	-8.1	4.4
Stockbuilding[1]	- 34.8	0.7	-0.3	0.2	-0.1	0.0
Total domestic demand	6 244.3	1.6	1.7	1.6	-8.2	4.4
Exports of goods and services	781.6	5.2	3.3	-2.5	-14.7	6.2
Imports of goods and services	756.5	7.2	7.5	1.1	-20.5	7.5
Net exports[1]	25.1	-0.2	-0.5	-0.5	0.9	0.0
Memorandum items						
GDP deflator	_	3.7	3.3	4.2	3.9	3.3
Consumer price index	_	3.4	3.7	3.7	3.1	3.3
Private consumption deflator	_	3.4	2.9	3.8	2.4	3.3
General government financial balance (% of GDP)	_	-7.8	-7.1	-5.9	-14.5	-7.2
Current account balance (% of GDP)	_	-0.7	-2.2	-2.7	-1.8	-2.0

1. Contributions to changes in real GDP, actual amount in the first column.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137352

The central government has not taken any coercive lockdown measures. By contrast, state and municipal governments have introduced them since 20 March, including closing shops, schools and beaches, in addition to cancelling public events. Distancing measures are currently in place in all of Brazil's 27 federative units. Land borders have been closed and entry by air from many countries has been restricted to returning nationals and residents.

Economic activity is declining amid deteriorating external financing conditions

Early indicators of activity and demand point to a sharp contraction since the beginning of the lockdown measures. Confidence and purchasing manager expectations have fallen sharply, while an early indicator of retail sales based on payment card transactions suggests average declines of 30% between 1 March and 30 May. Particularly pronounced drops in activity have affected air transportation, tourism and hospitality, but many informal activities also shut down as public life has come to a halt in large parts of the country. OECD benchmark estimates suggest a decline in activity of around 20% during the lockdown. Turbulence in international capital markets affected Brazil before economic activity started to decline, as international investors sought safe haven assets and portfolio outflows soared. This put significant pressure on the exchange rate, equity prices and sovereign spreads. Prices of exported commodities have seen a minor decline since the beginning of the year, driven by sharp declines in oil prices, but largely compensated by rising agriculture and mineral prices.

A sizeable policy reaction supports the most vulnerable

Fiscal policy responses to the pandemic have been bold and sizeable, with a total fiscal impact exceeding 6% of GDP and a strong focus on the most vulnerable groups, including informal workers. Monetary policy support has taken the form of two rate cuts of a joint 125 basis points, combined with prudential and regulatory measures that would allow additional credit extension of up to 17% of GDP.

Income support measures for low-income workers (2.9% of GDP) have included a new temporary emergency benefit of USD 120 per month for informal or unemployed workers earning less than half the minimum wage. The benefit is doubled for single parents and, as a side-effect, it has led to significant progress in expanding access to basic banking services. Over 50 million benefit claims have been paid out. Conditional cash transfer programmes have received resources to enrol 1.2 million of additional beneficiaries. A new short-time work scheme with public income support from unemployment insurance will compensate income losses of formal workers and alleviate wage costs for employers in exchange for job guarantees. Temporary exemptions from certain labour regulations, the possibility to advance annual leave and other measures will create further flexibility in working hours for firms.

Policy support for SMEs (1.4% of GDP) includes a low-interest credit line to cover wages for employees earning up to two-times minimum wages, with 85% of the credit risk borne by the federal government. Additional new corporate credit lines will be created by the national development bank. Tax liabilities and other charges on firms are being postponed, with a particular focus on SMEs. The government has pledged to cover the first 15 days of sick leave for infected workers. Finally, direct spending on health and transfers to states and municipalities, who bear the primary responsibility for financing public healthcare services, has been increased by 2% of GDP.

The economy is entering a deep recession

Economic projections assume a gradual easing of most local lockdown measures in the first half of June. GDP is estimated to have declined sharply in the second quarter, with an only gradual and partial recovery by end-2021. The economy is projected to contract by more than 9.1% during 2020 in the double-hit scenario, which assumes a second lockdown in Brazil at the end of the year. The recovery in 2021 would be moderate in this scenario, with projected growth of 2.4%. The unemployment rate will rise to a historic peak of 15.4% during 2021 in this scenario. A higher fiscal deficit will add at least 10 percentage points of GDP to gross public debt, which will exceed 90% of GDP at the end of 2020. In the single-hit scenario, the economy is projected to contract by 7.4% during 2020, followed by an expansion of 4.2% in 2021. Public debt will rise to almost 90% of GDP by end-2020. Against the background of job losses, lower hours worked and significantly reduced earning possibilities for self-employed workers, private consumption and investment are projected to drive the downturn, albeit mitigated by the policy response. Estimates suggest that the hit to private consumption could have been some 2-3 percentage points higher, on an annual basis, in the absence of emergency income support measures.

The market reaction to deteriorating fiscal accounts entails significant risks. Interest rates have recently declined on the back of improving fiscal prospects, but this could reverse if confidence about a resumption of this trend after the crisis were to fade. Strong portfolio outflows from Brazil and other emerging markets have foreshadowed possible adverse events in global financial markets. With almost 90% of gross public debt held by domestic residents and 95% denominated in domestic currency, risks are lower than in the past for sovereign debt, but Brazilian corporates have accumulated significant foreign-currency liabilities over recent years. To what extent these are hedged is hard to ascertain. Currency reserves of 18% of GDP and a dollar swap-line with the US Federal Reserve provide significant dollar liquidity, and act as a cushion against external risks.

The fiscal response should be temporary to preserve recent progress

The COVID-19 policy response has helped to limit the permanent scars inflicted by the pandemic, and should be continued as long as the effects of lockdowns weigh on economic activity. However, the additional spending measures should be kept temporary and attempts to slip in additional expenses that are not related to COVID-19 should be resisted. Potential negative confidence effects and higher interest

rates could be avoided by combining needed extra spending in 2020 with structural measures that strengthen spending efficiency and the credibility of the medium-term fiscal consolidation planned prior to the COVID-19 outbreak. This could be achieved by legislating measures, such as a public administration reform comprising civil servant pay, or an ambitious reduction of ineffective subsidies and tax exemptions, while implementing them only as of 2021. With inflation declining and firmly below target, monetary policy has some limited room left to support the economic recovery with lower policy rates and continuous liquidity support.

Bulgaria

The economy was growing robustly before the pandemic shock, but in 2020 faces the largest contraction since the late 1990s. While the two-month confinement has been lifted, a rapid recovery is unlikely given continued distancing measures, the vulnerable position of households, and pervasive uncertainty as well as weak external demand, especially from Europe. A second COVID-19 wave in 2020 (the double-hit scenario) would lead to an economic contraction of about 8% and of 0.3% in 2021. Unemployment would in this event almost double after employment had reached historical highs in 2019. On the positive side, the country seems to have to date contained the virus, with a low number of reported deaths. If the virus outbreak subsides by the summer (the single-hit scenario), a more rapid recovery in private consumption and investment would lead to a lower output contraction of 7.1% in 2020.

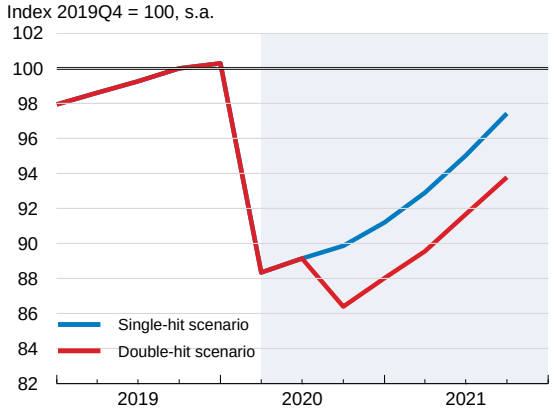
Increasing resources for the crisis response would support a more robust recovery. Further funding for the health sector is necessary given its relatively low resources. Widening access to unemployment and means-tested benefits, and implementing active labour market policies is a priority given low coverage. Increasing liquidity support to firms would prevent bankruptcies and help enterprises prepare for a recovery. Achieving membership of the European Exchange Rate Mechanism (ERM II) and banking union in 2020 would bolster confidence. Further EU resources would help the country expand its crisis response, particularly if financing conditions become further constrained.

Containment measures have so far succeeded

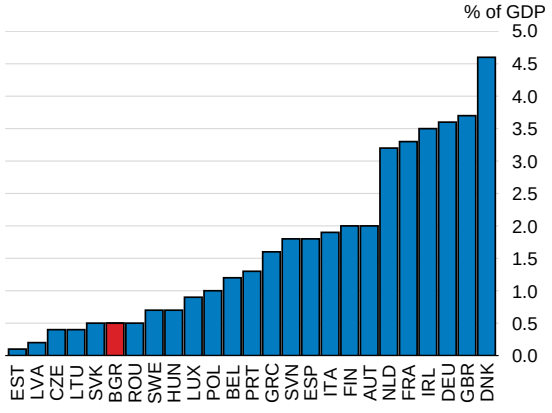
The country seems to have contained the spread of the virus to date, with a low number of reported COVID-19 deaths. The first cases were reported on 8 March and the country quickly moved to introduce confinement measures on 13 March. The result is that so far the health system has had to deal with a low number of cases. A second wave of the pandemic would put a greater burden on the health system. While there is a large number of acute care hospital beds, there is a shortage of nursing staff and general practitioners. In addition, the population is relatively old, with a high incidence of circulatory and respiratory diseases.

Bulgaria

A double hit would substantially delay the recovery
Real GDP



Social assistance spending will need to rise
Means-tested benefits, excluding old age, 2017



Source: OECD Economic Outlook 107 database; and Eurostat.

StatLink https://doi.org/10.1787/888934139081

Bulgaria: Demand, output and prices (double-hit scenario)

Bulgaria: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices BGN billion	Percentage changes, volume (2015 prices)				
GDP at market prices	95.1	3.5	3.1	3.4	-8.0	-0.3
Private consumption	57.4	3.8	4.4	5.8	-7.3	-0.3
Government consumption	14.9	4.3	5.3	5.5	4.5	1.9
Gross fixed capital formation	17.6	3.2	5.4	2.2	-10.5	-2.6
Final domestic demand	89.9	3.8	4.7	5.1	-5.6	-0.3
Stockbuilding[1]	0.5	0.6	1.1	-1.2	-0.8	0.0
Total domestic demand	90.4	4.4	5.8	3.8	-6.4	-0.3
Exports of goods and services	60.9	5.8	1.7	1.9	-7.5	1.3
Imports of goods and services	56.2	7.4	5.7	2.4	-4.0	1.4
Net exports[1]	4.7	-0.7	-2.4	-0.3	-2.4	-0.1
Memorandum items						
GDP deflator	_	3.9	4.0	4.7	0.6	1.3
Consumer price index	_	2.1	2.8	3.1	0.7	0.5
Core consumer price index[2]	_	-0.5	2.1	1.8	0.4	0.5
Unemployment rate (% of labour force)	_	6.2	5.2	4.2	8.0	7.8
General government financial balance (% of GDP)	_	1.1	2.0	2.1	-3.4	-3.3
General government gross debt (% of GDP)	_	35.6	31.8	30.3	33.7	37.0
General government debt, Maastricht definition (% of GDP)	_	25.3	22.3	20.4	23.8	27.1
Current account balance (% of GDP)	_	3.5	1.4	4.0	2.9	2.0

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137371

The shutdown lasted two months until 13 May, but was less severe than in the most hard-hit EU countries. Large shopping centres, restaurants, parks, amusement/gambling halls, bars and nightclubs were shut, but banks, insurance offices, grocery stores and pharmacies remained open. Mass events were banned. Workplaces could remain open if they had adequate protection in place for employees. In practice, many employers in service sectors chose to shut down until May. The country has closed its borders to non-EU/EEA and select EU/EEA country nationals, and until early May had in place restrictions on intercity travel.

The widespread shutdown had a large economic impact

The temporary shutdown of businesses and travel restrictions together with a reduction in household and company activity in response to the pandemic led to a decline in output beginning in March 2020. The most impacted sectors were construction, wholesale and retail trade, air transport, accommodation and food services, professional activities, arts, entertainment and recreation, other service activities and transport equipment manufacturing, which make up just under a third of economic activity. Employment deteriorated sharply in April 2020, when the registered unemployment rate increased by 2.2 percentage points compared to March.

Bulgaria: Demand, output and prices (single-hit scenario)

Bulgaria: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices BGN billion	Percentage changes, volume (2015 prices)				
GDP at market prices	95.1	3.5	3.1	3.4	-7.1	2.4
Private consumption	57.4	3.8	4.4	5.8	-6.3	1.8
Government consumption	14.9	4.3	5.3	5.5	4.5	1.9
Gross fixed capital formation	17.6	3.2	5.4	2.2	-9.5	2.0
Final domestic demand	89.9	3.8	4.7	5.1	-4.8	1.9
Stockbuilding[1]	0.5	0.6	1.1	-1.2	-0.8	0.0
Total domestic demand	90.4	4.4	5.8	3.8	-5.6	1.8
Exports of goods and services	60.9	5.8	1.7	1.9	-6.4	6.3
Imports of goods and services	56.2	7.4	5.7	2.4	-3.0	5.4
Net exports[1]	4.7	-0.7	-2.4	-0.3	-2.2	0.6
Memorandum items						
GDP deflator	_	3.9	4.0	4.7	0.6	1.3
Consumer price index	_	2.1	2.8	3.1	0.8	0.6
Core consumer price index[2]	_	-0.5	2.1	1.8	0.4	0.6
Unemployment rate (% of labour force)	_	6.2	5.2	4.2	7.6	6.3
General government financial balance (% of GDP)	_	1.1	2.0	2.1	-3.3	-2.9
General government gross debt (% of GDP)	_	35.6	31.8	30.3	33.6	36.4
General government debt, Maastricht definition (% of GDP)	_	25.3	22.3	20.4	23.7	26.5
Current account balance (% of GDP)	_	3.5	1.4	4.0	3.0	2.7

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137390

The macroeconomic policy response to COVID-19 has been constrained

The macroeconomic policy response to the pandemic has been less powerful than in many EU countries due to a weaker fiscal policy response and restrictions on monetary policy, given the existing currency board. Budget measures amount to about 1.3% of 2019 GDP. These measures focus on a restructuring of spending, including increased resources for the health system, and a job subsidy scheme for the most impacted sectors, whereby the government pays 60% of salaries for employees with employers paying the remaining 40%. In addition, the government is increasing the capital of the Bulgarian Development Bank to provide liquidity support to firms and has retargeted EU resources towards crisis-oriented programmes. The Bulgarian National Bank (BNB) is taking measures aimed at preserving the stability of the banking system and strengthening its flexibility through an increase in banking system liquidity, full capitalisation of profits in the banking system, and the cancellation of the increase in the counter-cyclical capital buffer planned for 2020 and 2021 (totalling 0.6% of 2019 GDP). The ECB and the BNB put in place a swap line of EUR 2 billion to provide euro liquidity in April.

The economic contraction will be the largest since the late 1990s

A double-hit pandemic wave is set to reduce real GDP by 8% in 2020 — a contraction not experienced since the crisis years of the late 1990s. The single-hit scenario is projected to lead to a lower fall in output of 7.1% in 2020. A rapid recovery in 2020 is unlikely given continued distancing measures, the vulnerable position of households to an income shock given low incomes and high informality, a cautious return to full production and investment in the private sector, and the weak European economy. Growth is expected to

return in 2021 only in the single-hit scenario. The unemployment rate is set to rise from historical lows to 8% in 2020 in the double-hit scenario. Despite low levels of public debt and a strengthened banking system that has benefitted from a reduction in non-performing loans, the response to a worsening crisis would be constrained if access to long-term financing deteriorates. Joining the European Exchange Rate Mechanism (ERM II) and the banking union in 2020 remains the key focus of the government's economic strategy. This would mitigate risks by raising confidence.

Restarting the economy may require stronger policy support

Low public debt provides the fiscal space for a larger response to the crisis, if required. Spending on health is low and further funding is necessary to prepare for a potential second pandemic wave. Measures to support firms and households may need to be expanded, particularly if there is a further virus outbreak. Unemployment could rise further, particularly if the government's wage subsidy scheme finishes in July without being replaced by new employment/active labour market policies with a similar impact. Widening access to unemployment benefits and means-tested social assistance is a priority. Continuing to address the gaps in the insolvency regime becomes ever more urgent given the likely rise in private sector indebtedness and bankruptcies. It will be important to reverse the tendency for large public investment cuts in downturns given infrastructure needs. Access to additional EU resources would help the country to expand its crisis response.

Canada

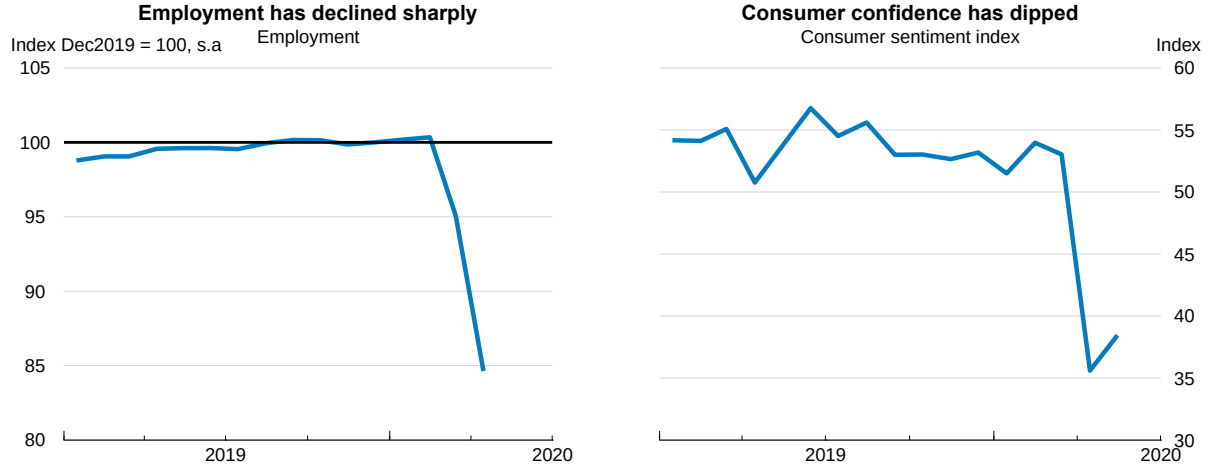
Annual output is projected to shrink by 9.4% in 2020 in the event of a second virus outbreak and related shutdown, and by 8% if recovery is uninterrupted. The rebound will not be dynamic enough for output to attain pre-COVID-19 levels by the end of 2021 under either scenario. Similarly, the rate of unemployment will still be elevated. Fiscal balances will deteriorate sharply from additional spending commitments and tax-revenue losses and then recover somewhat thanks to declining outlays in support payments and recovering incomes. Weak demand will push down consumer price inflation.

The central bank, along with federal, provincial and territorial governments, have responded quickly to the COVID-19 crisis, and a substantial range of monetary, fiscal and structural support is in place. Contingency plans for future outbreaks of COVID-19 are now needed. Policy also needs to ensure that measures already taken are effective, in particular the Canada Emergency Response Benefit (CERB) and Canada Emergency Wage Subsidy (CEWS) given the importance accorded to them. Gaps in support need to be dealt with as they appear, especially among vulnerable groups, including aboriginal communities. The oil sector shock should be used as an opportunity to accelerate green transition.

The lifting of containment measures is underway

Canada's first cases of COVID-19 appeared in mid-January, with substantial acceleration in cases from early March. However, Canada appears to have averted the scale of impact seen in some countries. The spread of the virus in care homes has been a key issue – around 17% of Canada's population is aged 65 years and over.

Canada 1



Source: Statistics Canada; and Refinitiv.

StatLink https://doi.org/10.1787/888934139100

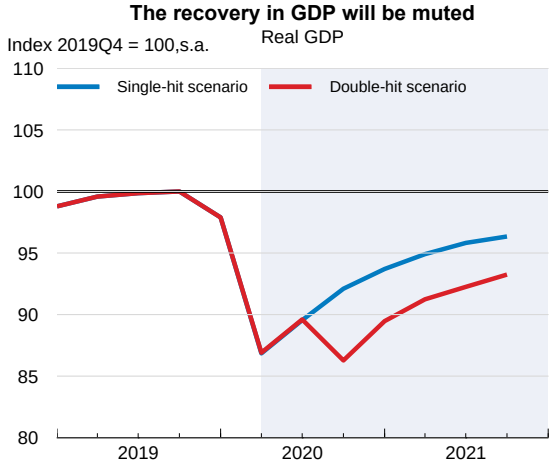
Canada: Demand, output and prices (double-hit scenario)

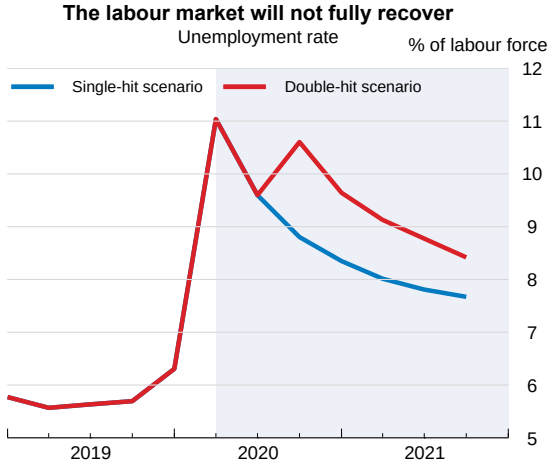
Canada: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices CAD billion	Percentage changes, volume (2012 prices)				
GDP at market prices	2 025.5	3.2	2.0	1.7	-9.4	1.5
Private consumption	1 184.6	3.6	2.1	1.6	-10.6	1.5
Government consumption	426.3	2.3	3.0	2.1	1.1	2.3
Gross fixed capital formation	461.3	3.6	1.2	-0.4	-12.7	1.6
Final domestic demand	2 072.2	3.3	2.1	1.3	-8.6	1.7
Stockbuilding[1]	1.1	0.9	-0.2	0.1	-0.8	0.0
Total domestic demand	2 073.3	4.1	1.9	1.4	-9.3	1.7
Exports of goods and services	638.1	1.4	3.1	1.3	-8.5	5.6
Imports of goods and services	685.9	4.2	2.6	0.6	-8.5	5.4
Net exports[1]	- 47.8	-1.0	0.1	0.2	0.1	-0.1
Memorandum items						
GDP deflator	_	2.5	1.8	1.9	0.4	0.3
Consumer price index	_	1.6	2.2	2.0	0.8	0.7
Core consumer price index[2]	_	1.6	1.9	2.1	1.2	0.9
Unemployment rate (% of labour force)	_	6.3	5.8	5.7	9.4	9.0
General government financial balance (% of GDP)	_	-0.1	-0.4	-0.3	-9.2	-4.9
General government gross debt (% of GDP)	_	95.2	93.8	94.5	105.8	110.1
Current account balance (% of GDP)	_	-2.8	-2.5	-2.0	-3.1	-3.6

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137409

Canada 2





Source: OECD Economic Outlook 107 database.

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Canada: Demand, output and prices (single-hit scenario)

Canada: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices CAD billion	Percentage changes, volume (2012 prices)				
GDP at market prices	2 025.5	3.2	2.0	1.7	-8.0	3.9
Private consumption	1 184.6	3.6	2.1	1.6	-8.8	5.7
Government consumption	426.3	2.3	3.0	2.1	1.1	2.3
Gross fixed capital formation	461.3	3.6	1.2	-0.4	-10.9	4.9
Final domestic demand	2 072.2	3.3	2.1	1.3	-7.1	4.8
Stockbuilding[1]	1.1	0.9	-0.2	0.1	-0.8	0.0
Total domestic demand	2 073.3	4.1	1.9	1.4	-7.9	4.8
Exports of goods and services	638.1	1.4	3.1	1.3	-6.8	6.9
Imports of goods and services	685.9	4.2	2.6	0.6	-6.9	8.9
Net exports[1]	- 47.8	-1.0	0.1	0.2	0.2	-0.9
Memorandum items						
GDP deflator	_	2.5	1.8	1.9	0.5	0.8
Consumer price index	_	1.6	2.2	2.0	0.9	1.3
Core consumer price index[2]	_	1.6	1.9	2.1	1.2	1.3
Unemployment rate (% of labour force)	_	6.3	5.8	5.7	8.9	8.0
General government financial balance (% of GDP)	_	-0.1	-0.4	-0.3	-7.5	-2.6
General government gross debt (% of GDP)	_	95.2	93.8	94.5	103.7	104.8
Current account balance (% of GDP)	_	-2.8	-2.5	-2.0	-3.1	-4.2

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.

Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137428

The containment measures came into force from mid to late March. Provinces and territories, as well as the federal government, played a key role. States of emergency and other measures brought school closure, regulation on distancing, operational restrictions on various types of businesses, and strong public health advice for people to remain at home. Saskatchewan was the first province to announce a reopening plan (implementation began on 4 May) and reopening is now underway throughout the country.

The economy faces an additional shock from the low oil price

Similar to other commodity producers, the COVID-19 crisis is bringing two economic shocks, the direct impact from containment measures and an indirect impact via commodity markets. Low oil prices and weak demand have already prompted cuts in shale-oil production, and large declines in investment are likely. In currency and financial markets, the crisis initially prompted exchange rate depreciation of around 8% vis-à-vis the US dollar and the main stock market reference index, the S&P/TSX index, dropped by around one-third between late February and mid-March. Recovery from these initial market reactions has only been partial. The scale of the initial impact on output and employment is increasingly apparent. Real gross domestic product fell 7.2% between February and March, the survey-based rate of unemployment increased from 5.6% to 13.7% between February and May and household and business confidence indices have dipped sharply. However, there are indicators of economic recovery now that confinement measures have begun to ease. For example, Apple's Mobility Trends Reports indicate that driving and walking activity are now close to pre-crisis levels.

The policy response has been rapid and substantial

Canada has taken many measures to head off macroeconomic destabilisation, bolster demand and support households and businesses. The Bank of Canada has lowered its policy rate by 150 basis points, to 0.25%. It has also supported liquidity through a reduction in the Domestic Stability Buffer Requirement and through more favourable conditions in the term repo market. Balance-sheet operations have been used to support the markets for government and mortgage bonds. The Bank has similarly supported markets that are important for the financing of provincial-government and small and medium-sized businesses.

Federal government measures are accounting for most of the fiscal support in terms of dollar value. Federal government spending and tax measures that have a direct budgetary impact are estimated at CAD 153 billion (equivalent to around 7% of GDP). The Canada Emergency Response Benefit (CERB) for workers losing income due to COVID-19 and the Canada Emergency Wage Subsidy (CEWS) for employers are expected to account for most of the fiscal outlay. CERB, operational since early April, provides a payment of CAD 500 per week for up to 16 weeks. CEWS, operational since mid-April, provides a wage-bill subsidy of up to 75% to employers for up to three months, and will be paid retroactively to mid-March. Other federal government support includes tax deferrals, increased support for families through tax credits and child benefits, as well as loan guarantees and co-lending programmes for business. Provincial governments have provided supplementary safety nets for households. For instance, Ontario's measures include an emergency assistance benefit and Alberta introduced a one-off payment to those in isolation. There is also provincial assistance for employees. For instance, Quebec's response includes a temporary aid programme for those not covered by other schemes. Business support includes payment deferral of provincially administered taxes (for instance, Ontario, Alberta and British Columbia) and deferrals on utility bills (for instance, British Columbia).

Recovery in output and employment will take time

For the projections, it is estimated that confinement measures, when they were fully operating, shut down around 20% of economic activity. Reduced activity in service sectors, such as wholesale and retail trade and the food and accommodation sector, accounted for most of the output reduction. Shutdown in the transport equipment sector of manufacturing also played a role, reflecting decisions by major automobile producers to halt production temporarily.

Increased transfers to households and businesses and reduced tax bills, along with monetary and liquidity support, will limit the depth of economic downturn. Nevertheless, the initial recession is deep; sharp falls in household consumption spending, business investment and external demand have taken place. The wage subsidy scheme will help limit employment losses, but unemployment will increase substantially. Consumer-price inflation is expected to be dented by the downturn. Recovery from the recession will be sluggish, especially if there are further outbreaks of the virus and related shutdowns. Neither output nor employment levels will have returned to pre-crisis levels by the end of the projection period, especially in the double-hit scenario. The fiscal balance will weaken substantially in 2020, especially in the case of a second shutdown. Around 40% of the deficit increase will be due to revenue losses. Balances will partially recover in 2021 due to rebound in tax revenues and the termination of temporary support measures.

Risks will remain elevated. As underscored by the double-hit scenario, there is a possibility of further COVID-19 outbreaks. For Canada, the future path of oil price and demand is also a key source of uncertainty and risk. And, as elsewhere, there is considerable uncertainty on how quickly some services sectors will revive. Canada's economic recovery from the COVID-19 crisis will also depend substantially on developments in the United States, including pandemic and economic risk factors, given the close economic ties between the two countries. In financial markets, while a liquidity crisis has been averted so far, risks remain. The crisis has heightened vulnerabilities in the corporate bond market and risks from high levels of household debt through mortgage borrowing.

Economic policy now needs to nurture job creation and the recovery

Policymakers need to ensure contingency planning for renewed outbreaks of COVID-19. Given the substantial support underway, policy should also ensure that the measures already taken are working as intended. Given the rapid implementation of programmes such as CERB and CEWS, there are, for instance, risks of issues in application processing and undesirable side-effects. Policy should also focus on addressing any gaps in support that may emerge; social and economic problems among vulnerable groups, such as aboriginal communities, will be likely made greater by the increase in unemployment. For business policy, the oil sector shock potentially provides opportunity to accelerate green transition through measures that help the reallocation of resources in the regions and sectors most affected by the decline in oil-related activity. Meanwhile, business policy also needs to plan an appropriately timed unwinding of support measures as conditions improve. In particular, prolonged wage subsidy may hold back recovery if it delays the resumption of business operations.

Although the long-term structural economic impacts from COVID-19 are uncertain, preliminary policy work is warranted. As elsewhere, COVID-19's legacy is likely to bring lasting shifts in the structure of economic activity, suggesting greater need for retraining programmes to help displaced workers, working patterns, and travel for business and leisure.

Chile

After the social protests of late 2019, the COVID-19 outbreak and the drop in commodity prices will push the economy into its deepest recession since 1982. If a second outbreak occurs later in the year, GDP will decrease by 7% and will start rebounding only in 2021. Should the current pandemic subside, a recovery led by consumption will start in the third quarter of 2020, even though GDP will still fall by 5.6% in 2020. Trade will remain depressed by a sluggish global recovery.

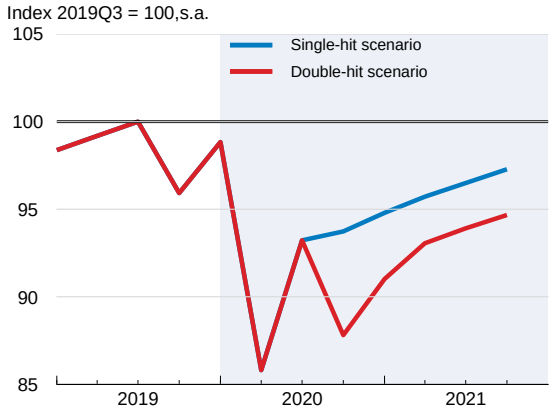
The authorities have introduced swift and unprecedented fiscal and monetary stimulus packages to mitigate the impact of COVID-19 by ensuring resources for the health sector, supporting household incomes and preserving jobs and working capital, especially for SMEs. Monetary measures should be stepped up if necessary to provide liquidity to uphold domestic demand and business activities. Existing fiscal space could be used for further support to SMEs and additional targeted transfers to the most vulnerable families to spur an inclusive recovery and avoid long-lasting adverse effects on jobs, poverty and inequality.

Chile reacted early to contain the spread of COVID-19

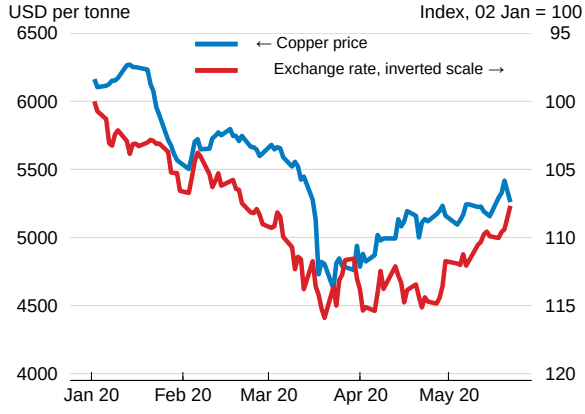
The COVID-19 pandemic reached Chile in March 2020. The spread of the virus has been uneven across the country, with the Metropolitan Region of Santiago accounting for more than 50% of total infections. Chile is continuously increasing its capacity for special care units with respiratory support and is able to perform more than 15 thousand tests per day.

Chile

The recession will be deep
Real GDP



The exchange rate and copper price have started to recover after sharp falls



Source: OECD Economic Outlook 107 database; Central Bank of Chile; and Refinitiv.

StatLink https://doi.org/10.1787/888934139138

Chile: Demand, output and prices (double-hit scenario)

Chile: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices CLP billion	Percentage changes, volume (2013 prices)				
GDP at market prices	169 537.4	1.4	4.0	1.0	-7.1	1.9
Private consumption	107 485.1	3.4	3.7	1.1	-16.5	-0.9
Government consumption	23 361.9	4.6	4.3	0.0	8.1	4.4
Gross fixed capital formation	38 544.7	-3.1	4.8	4.3	-15.0	-0.9
Final domestic demand	169 391.7	2.1	4.0	1.6	-12.5	0.1
Stockbuilding[1]	- 887.1	0.8	0.7	-0.5	0.3	0.0
Total domestic demand	168 504.5	3.0	4.8	1.2	-12.1	0.1
Exports of goods and services	47 722.4	-1.5	5.1	-2.2	1.9	4.4
Imports of goods and services	46 689.6	4.6	7.9	-2.3	-17.7	-1.5
Net exports[1]	1 032.8	-1.7	-0.7	0.0	5.6	1.8
Memorandum items						
GDP deflator	_	4.6	2.3	2.7	3.2	2.6
Consumer price index	_	2.2	2.4	2.6	3.6	3.1
Private consumption deflator	_	2.6	2.6	1.9	2.7	3.1
Unemployment rate (% of labour force)	_	7.0	7.4	7.2	10.1	11.0
Central government financial balance (% of GDP)	_	-2.8	-1.6	-1.8	-8.2	-3.2
Current account balance (% of GDP)	_	-2.3	-3.6	-3.9	0.5	2.7

1. Contributions to changes in real GDP, actual amount in the first column.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137447

On 18 March, Chile entered a 90-day state of emergency, the second time in the past five months, the first having occurred following the social protests of October 2019. All schools and universities have been closed since 16 March and winter holidays were brought forward. All borders are closed and entry by air is restricted to returning nationals and residents. A national curfew is in force until further notice, while lockdown measures and the closure of non-essential businesses are affecting all districts of the Gran Santiago area as of 15 May, and other particularly impacted areas.

The economy is visibly hit

Containment measures affect around one-fifth of the economy. Hotels and restaurants, which represent 2.3% of GDP, have shut down. Transportation, representing 5% of GDP, and retail sales are operating at 50-60% of their capacities, threatening employment in these sectors. Export shipments have collapsed, in particular of fruits, vegetables, salmon and forest products. However, the mining sector has been resilient, reporting delays and logistical issues but no interruption in orders; mining output in volume terms increased by 0.8% year-on-year in March. Recent movements in domestic financial markets broadly reflect the volatility in international financial markets. The Chilean peso depreciated sharply by 10 points at the start of the crisis, but has subsequently been one of the emerging-market currencies that has most appreciated relative to the US dollar. Additionally, metal prices have collapsed, especially for copper, despite some recovery in prices more recently. The impact of lower copper prices is partly mitigated by the steeper fall in oil prices, given that the country is a net oil importer.

Chile: Demand, output and prices (single-hit scenario)

Chile: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices CLP billion	Percentage changes, volume (2013 prices)				
GDP at market prices	169 537.4	1.4	4.0	1.0	-5.6	3.4
Private consumption	107 485.1	3.4	3.7	1.1	-13.9	3.3
Government consumption	23 361.9	4.6	4.3	0.0	8.1	4.4
Gross fixed capital formation	38 544.7	-3.1	4.8	4.3	-13.7	-0.1
Final domestic demand	169 391.7	2.1	4.0	1.6	-10.6	2.7
Stockbuilding[1]	- 887.1	0.8	0.7	-0.5	0.3	0.0
Total domestic demand	168 504.5	3.0	4.8	1.2	-10.2	2.8
Exports of goods and services	47 722.4	-1.5	5.1	-2.2	2.1	5.7
Imports of goods and services	46 689.6	4.6	7.9	-2.3	-16.2	3.8
Net exports[1]	1 032.8	-1.7	-0.7	0.0	5.2	0.8
Memorandum items						
GDP deflator	_	4.6	2.3	2.7	3.2	2.6
Consumer price index	_	2.2	2.4	2.6	3.6	3.1
Private consumption deflator	_	2.6	2.6	1.9	2.8	3.1
Unemployment rate (% of labour force)	_	7.0	7.4	7.2	9.5	8.7
Central government financial balance (% of GDP)	_	-2.8	-1.6	-1.8	-8.0	-3.1
Current account balance (% of GDP)	_	-2.3	-3.6	-3.9	0.1	1.3

1. Contributions to changes in real GDP, actual amount in the first column.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137466

The policy response has been large and timely

Given ample fiscal space, a large temporary fiscal package was passed in March (4.7% of GDP) and another one in April (2% of GDP) to support affected workers and provide liquidity and working capital to companies, particularly SMEs. A mechanism to protect labour income was introduced, allowing for the temporary suspension of the contractual relationship when teleworking is not possible. Moreover, at the end of March, the central bank cut its interest rate to 0.5%, extended its peso and USD liquidity programme through repo operations and swaps, and announced a new conditional financing facility in which banks have access up to a total of USD 4.8bn in 4-year loans at the policy rate (0.5%), with an additional USD 19.2bn as a function of additional credit to more stressed segments. The window for dollar sales that was opened in November 2019 after the social events was also extended. These unprecedented measures should mitigate the destruction of jobs and capital during a time when a large part of the economy has come to a halt.

The hit to growth will be strong and long-lasting

Following the crisis triggered by the major social protests at the end of 2019, the fight against the COVID-19 outbreak will push the economy into recession in 2020. Should there be a resurgence in infections towards the end of 2020, output is expected to drop by 7% in 2020. The sharp contraction will be driven by a slowdown in exports, as copper prices drop and global and regional value chains are disrupted, the negative impact of containment measures on consumption and jobs, and the uncertainty surrounding households' income. The effects of the pandemic in the United States and China will significantly affect

Chile since these two economies account for almost a half of total exports and foreign investment. The labour market should however be quite resilient – as was the case during the social unrest – with some moderate increase in unemployment and informal employment. The economy is expected to rebound in 2021, but in the event of a second outbreak, the level of output at the end of 2021 will be 6% lower than before the social events of end-2019.

Policies priorities to support the recovery

COVID-19 infections may strike again, either directly or indirectly through the effect on other economies, so the authorities must stand ready to react, if needed. Until an effective treatment or a vaccine are available, the immediate priorities should be to increase capacity for extensive testing, tracking and tracing, and the provision of health care treatment for all patients, regardless of whether they are insured or not. Providing support to healthcare workers and enhancing the provision of medical and protective equipment for all the population are also important to cushion the shock of a second outbreak and save human lives. Credible institutions and sustainable fiscal policy have put the economy in a favourable position before entering the social crisis and the virus outbreak, which leaves room for further fiscal and monetary policies to support the economy, if needed. Fiscal measures to help firms and in particular SMEs are warranted, such as the further deferral or cancellation of corporate and VAT tax payments and the increase of the conditional financial facility and liquidity credit line, and transfers to the most vulnerable families - including non-conditional cash transfers, tax deferrals and reductions, food baskets or suspension of payments of basic utilities.

China

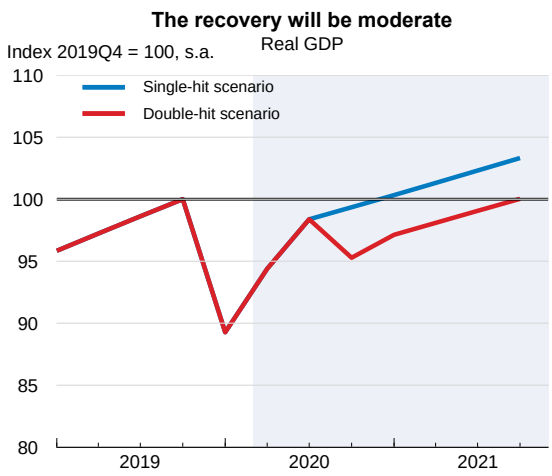
Following the steepest quarterly collapse on record in the first quarter, GDP will fall by around 3.7% in 2020 if there is a second virus outbreak later in the year and by a percentage point less if a further outbreak is avoided, before rebounding in 2021. The COVID-19 outbreak disrupted economic activities around the country and many businesses remain shut even though lockdown measures have been lifted. The pandemic triggered an increase in precautionary saving and eroded consumer confidence, weakening short-term consumption prospects. Infrastructure investment will hold up growth amid collapsing private investment and foreign demand. If the virus outbreak returns, the second shock to the economy will be much smaller than during the first outbreak, which occurred during the holiday season when most people were away and thereby were not able to return to work due to lockdowns.

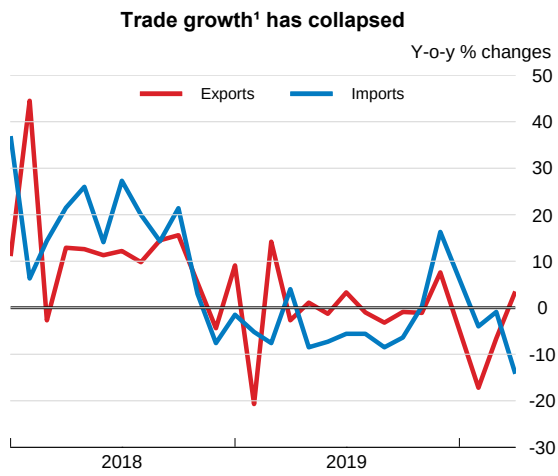
Lockdown measures have been lifted, but tourism-related industries and firms heavily dependent on foreign demand are far from fully resuming activities. As smaller firms are over-represented in these activities, they are hit disproportionately, pushing up unemployment. Rolling over of loans and tax exemptions may help those that are eligible, but many rely on shadow banking for financing and need to pay fixed costs even without generating revenues. Greater support to shoulder their fixed costs is needed. Workers laid off or put on unpaid leave should receive social assistance irrespective of their residence. The out-of-pocket share of health costs should be reduced. Infrastructure investment should be channelled to urban transit systems and rural roads where the social return is high, in particular to reduce climate risks.

The COVID-19 outbreak exposed vulnerabilities and left the economy with scars

The COVID-19 virus was first identified in Wuhan in Hubei province. Following the SARS outbreak in 2002-03, disease control has been strengthened, but the system continues to be subject to multi-level governance problems, leading to a stage where only a stringent form of lockdown could effectively stop the spread of the virus, at the cost of thousands of human lives.

China 1





1. Data are in nominal terms. February 2020 growth rate refer to the cumulated January-February growth over the same period of last year.
Source: OECD Economic Outlook 107 database; and CEIC.

StatLink https://doi.org/10.1787/888934139157

China: Demand, output and prices (double-hit scenario)

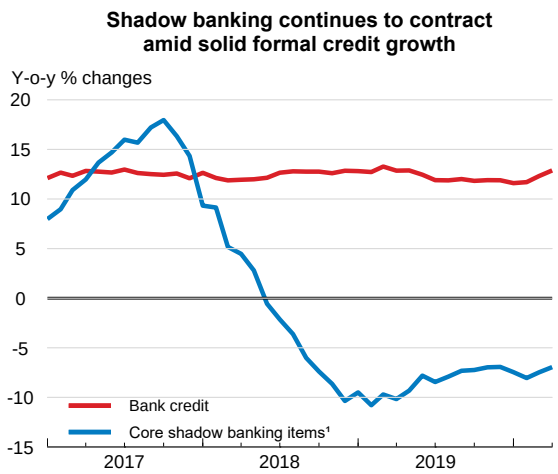
China: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices CNY trillion	Percentage changes, volume (2015 prices)				
GDP at market prices	74.6	6.9	6.7	6.1	-3.7	4.5
Total domestic demand	73.0	6.0	7.2	5.9	-3.3	4.1
Exports of goods and services	14.6	11.3	3.7	2.0	-4.6	4.4
Imports of goods and services	12.9	6.9	5.7	0.3	-2.6	2.2
Net exports[1]	1.7	1.1	-0.2	0.4	-0.5	0.5
Memorandum items						
GDP deflator	_	4.3	3.5	1.6	1.4	1.6
Consumer price index	_	1.5	1.9	2.9	4.0	2.3
General government financial balance[2] (% of GDP)	_	-3.1	-3.1	-3.7	-7.6	-7.6
Headline government financial balance[3] (% of GDP)	_	-2.9	-2.6	-2.8	-4.0	-3.3
Current account balance (% of GDP)	_	1.6	0.2	1.0	0.6	0.8

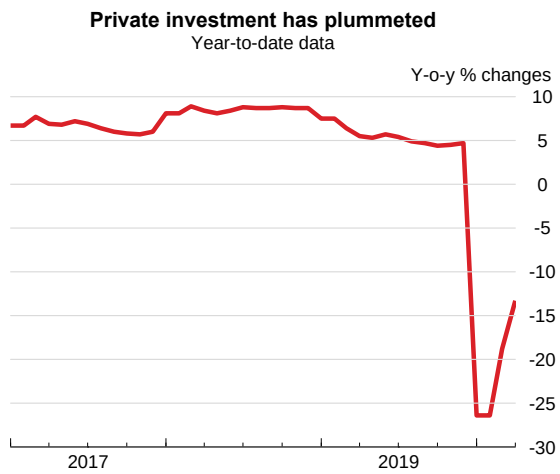
1. Contributions to changes in real GDP, actual amount in the first column.
2. Encompasses the balances of all four budget accounts (general account, government managed funds, social security funds and the state-owned capital management account).
3. The headline fiscal balance is the official balance defined as the difference between revenues and outlays. Revenues include: general budget revenue, revenue from the central stabilisation fund and sub-national budget adjustment. Outlays include: general budget spending, replenishment of the central stabilisation fund and repayment of principal on sub-national debt.

Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137485

China 2





1. Core shadow banking items include entrusted loans, trusted loans and undiscounted bankers' acceptance.
Source: CEIC.

StatLink https://doi.org/10.1787/888934139176

China: Demand, output and prices (single-hit scenario)

China: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices CNY trillion	Percentage changes, volume (2015 prices)				
GDP at market prices	74.6	6.9	6.7	6.1	-2.6	6.8
Total domestic demand	73.0	6.0	7.2	5.9	-2.2	6.3
Exports of goods and services	14.6	11.3	3.7	2.0	-3.8	6.1
Imports of goods and services	12.9	6.9	5.7	0.3	-1.8	3.3
Net exports[1]	1.7	1.1	-0.2	0.4	-0.5	0.6
Memorandum items						
GDP deflator	_	4.3	3.5	1.6	1.4	1.6
Consumer price index	_	1.5	1.9	2.9	3.8	1.9
General government financial balance[2] (% of GDP)	_	-3.1	-3.1	-3.7	-7.2	-6.2
Headline government financial balance[3] (% of GDP)	_	-2.9	-2.6	-2.8	-3.6	-3.2
Current account balance (% of GDP)	_	1.6	0.2	1.0	0.6	0.9

1. Contributions to changes in real GDP, actual amount in the first column.
2. Encompasses the balances of all four budget accounts (general account, government managed funds, social security funds and the state-owned capital management account).
3. The headline fiscal balance is the official balance defined as the difference between revenues and outlays. Revenues include: general budget revenue, revenue from the central stabilisation fund and sub-national budget adjustment. Outlays include: general budget spending, replenishment of the central stabilisation fund and repayment of principal on sub-national debt.

Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137504

As the lockdown of the epicentre was announced on the eve of the Chinese New Year, holidays were extended by two weeks in most parts of the country. The neighbourhood committee system was crucial in administering rigorous testing, tracking of contacts and isolating of confirmed and suspected cases. The distribution of high-quality medical resources is very uneven across the country, with most of them in the largest cities, thereby forcing rural areas to self-shut to avoid the virus. Because of the stringent measures, nearly half of China's counties did not have a single COVID-19 case. From mid-February, activities started resuming gradually, while Hubei province remained under lockdown for 2 months and Wuhan for 2.5 months.

Economic activity experienced the sharpest quarterly fall on record

Economic activity fell by 6.8% in the first quarter (y-o-y), driven mainly by plummeting output in industry and tourism-related services. IT and financial services, in contrast, exhibited robust growth rates amid promotion of online payments and the emergence of new apps to meet demand for contactless services. Construction, typically hiring migrant workers, took time to resume operations due to the lack of workers and/or protective materials. Manufacturing was also severely affected as the outbreak took place in the midst of the holiday season with workers away from their workplaces and, once the holidays were over, not able to return due to containment measures. The staggered outbreak across the world had a particularly adverse impact on global value chains, resulting in a series of disruptions in backward and forward linkages. Industrial firms have resumed production, but are operating at capacity utilisation rates that are 10 percentage points lower than normal. Smaller and private firms, due to their concentration in consumer goods manufacturing and exporting industries, and tourism-related services, are particularly hard hit, leading to a jump in urban unemployment. Migrant workers, who move to cities for temporary jobs, are not captured by such data, as they can hardly afford to stay in cities once they lose their job.

Infrastructure investment and moderate monetary easing is supporting growth

Government spending swiftly supported soaring public health material and equipment needs and covered the costs of COVID-19 treatment. This provided crucial relief, as out-of-pocket health costs are high in China, though reimbursement only applies for confirmed cases. R&D spending on medicine and vaccine development has also been stepped up. Firms in the most affected industries and regions benefit from VAT and income tax reductions and exemptions, and medical personnel from reduced income tax on overtime pay and in-kind benefits. Reduction or exemption of social security charges are even more important. While such tax and charge reductions ease the burden on the targeted groups, more systematic work-retention support is needed to prevent otherwise viable firms exiting the market. Frontloading of local government bond issuance will finance mainly infrastructure investment, which will hold up growth.

The coincidence of the virus outbreak and the Chinese New Year led to large liquidity injections early this year and these were followed by continuing liquidity support as needed. The monetary policy measures taken included the lowering of the reserve requirement ratio, reducing the interest paid on excess reserves, cutting the loan prime rate and rates on medium-term lending facility (MLF), and open market operations. All these measures were effective in enticing banks to lend, as illustrated by robust credit growth. Some measures are intended to stimulate lending to smaller firms. Regional lenders, which tend to have a greater exposure to small firms and to tourism-related services, benefit from a greater reduction in the required ratio of deposits they have to hold with the central bank. In addition, the loan-loss provision coverage ratio for small and medium-size banks has been cut by 20 percentage points and the weight of financial inclusion in regulatory assessments raised. More recently, the central bank introduced a programme to purchase qualifying credit loans from small banks and set up a special purpose vehicle to lend to small businesses. Moratorium of loan repayments by SMEs has been extended until end-March 2021.

Subdued domestic and external demand will weigh on the recovery

With greater motives to save, lower consumer confidence and many export markets still weak, the recovery will be slow. There may be continued sporadic outbreaks in either scenario, leading to smaller-scale confinement measures, and activities involving physical contact or gathering in closed spaces will remain shut. With a moderate stimulus package of 3-4% of GDP, growth will be negative this year, notwithstanding the pick-up in infrastructure investment following a plunge. In the double-hit scenario, GDP growth will be a percentage point lower than in the single-hit scenario as subdued overseas demand weighs on exports and lockdowns constrain production. Those factors also curb growth in the single-hit scenario, albeit to a lesser extent.

Concentration of bankruptcies in the most affected regions and sectors could bring down lenders specialised in services to these regions and sectors and thus lead to the materialisation of systemic risk, spreading also to other regions. Heavily indebted private firms may also get to the brink of bankruptcy if debt moratoriums or restructuring are not extended. Allowing indebted, unviable state-owned enterprises and other public entities go bankrupt would sharpen risk perception. The lowering of the loan-loss coverage ratio for small banks also increases their vulnerability to serial bankruptcies of smaller firms. Bankruptcies would push up unemployment, both in urban areas and among migrants. Lockdowns in other countries may disrupt value chains, hitting China's parts and components producers and assemblers, although their reliance on imported inputs is decreasing. A faster-than-expected recovery from the virus crisis in Asian countries would boost not only exports, as these are the fastest-growing markets, but also employment, as export-driven firms account for nearly a quarter of total employment. Moreover, as half of exports are delivered by private firms, an export recovery would halt the decline of the private investment share.

More support to individuals and small firms hit by the outbreak is needed for a robust recovery

The COVID-19 crisis should be used as an opportunity to initiate reforms to reduce the out-of-pocket share of health costs and strengthen social protection to encourage spending. The decision to forego a GDP growth target this year will allow greater focus on the quality of growth. Abandoning GDP growth targets for good would help to avoid incentives to pursue growth at any price and hence make growth more sustainable. Acceleration of the reform of the household registration system to grant access to public services to all would also work in that direction. Rebalancing from investment to consumption could continue only with those structural reforms. The private sector needs to be provided with a level playing field to expand investment opportunities and reverse the shrinking share of private investment. For efficiency, targeting infrastructure spending on projects with high social returns, such as urban transit systems or rural roads, is essential, especially if they help to mitigate climate risks.

Colombia

The economy is entering a deep recession, the worst in a century, driven by domestic confinement measures necessary to limit the spread of COVID-19, the global economic contraction, lower oil prices, and tightening financial conditions. Should a second outbreak occur in late 2020 GDP will decrease by 7.9% in 2020 and a slow gradual recovery will be delayed to 2021. If the pandemic is tamed after the current outbreak, GDP is expected to fall by 6.1% in 2020. The recovery will be moderate, led by improvements in consumer confidence and a gradual recovery of investment helped by a lower corporate tax burden introduced in a 2019 tax reform. A weak external environment will keep trade depressed and raise vulnerability to already low commodity prices.

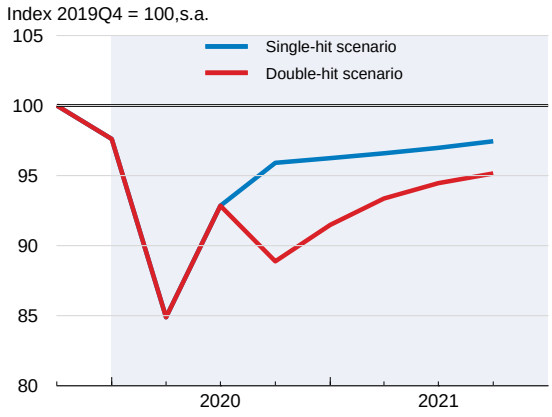
Fiscal policy should continue to support public health services, and make the healthcare system ready for future outbreaks of COVID-19. Although fiscal space is limited, further targeted public resources could be needed to support economic activity in sectors suffering the most from the containment measures. Fostering formal employment through lower payroll taxes will be key to putting the economy on a higher productivity and inclusive growth path. Monetary policy should remain accommodative and ease further if needed.

Containment measures were put in place early in the outbreak

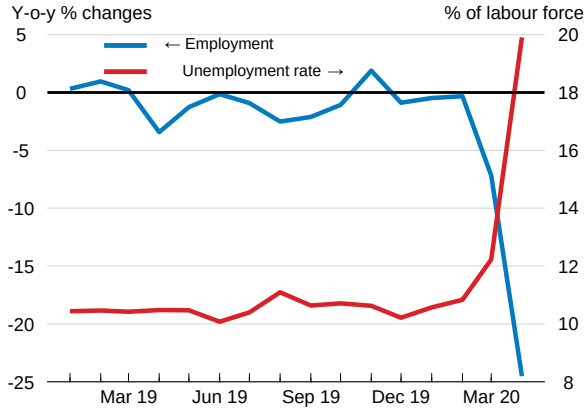
The virus was first diagnosed in Colombia in early March. The daily new contagion cases, the death toll and the use of intensive care beds continue to be low, compared to some countries in the region and most advanced countries. This is at least partly driven by the early actions on containment, and a relatively young population.

Colombia

The economy is entering into recession
Real GDP



The labour market is suffering from a severe hit



Source: OECD Economic Outlook 107 database; and GEIH of DANE.

StatLink https://doi.org/10.1787/888934139195

Colombia: Demand, output and prices (double-hit scenario)

Colombia: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices COP trillion	Percentage changes, volume (2015 prices)				
GDP at market prices	863.8	1.4	2.5	3.3	-7.9	2.8
Private consumption	596.5	2.1	3.0	4.5	-6.8	2.7
Government consumption	125.6	3.6	7.0	4.3	3.8	2.9
Gross fixed capital formation	191.2	1.9	1.5	4.3	-17.9	-2.1
Final domestic demand	913.3	2.2	3.3	4.4	-7.5	1.9
Stockbuilding[1]	9.0	-1.2	0.1	-0.1	-0.1	0.1
Total domestic demand	922.2	1.1	3.4	4.3	-8.5	2.0
Exports of goods and services	127.1	2.6	0.9	2.6	-18.6	-1.2
Imports of goods and services	185.6	1.0	5.8	8.1	-19.5	-4.1
Net exports[1]	- 58.5	0.2	-1.0	-1.3	1.3	0.6
Memorandum items						
GDP deflator	_	5.1	4.5	4.3	2.3	2.8
Consumer price index	_	4.3	3.2	3.5	2.9	2.5
Core inflation index[2]	_	4.9	2.9	3.0	2.7	1.9
Unemployment rate (% of labour force)	_	9.4	9.7	10.5	19.8	19.9
Current account balance (% of GDP)	_	-3.3	-3.9	-4.3	-3.7	-3.4

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding primary food, utilities and fuels.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137523

A state of economic and social emergency was declared on 17 March. Resources for the health sector have been increased to facilitate the acquisition of medical equipment, enlarge testing capacities and provide liquidity to the hospital network. The lockdown of the country was announced on 24 March. Border and educational institution closures are in place since mid-March. The authorities have lifted some lockdown measures since the end of April. Public works, manufacturing, construction and retail businesses have started operating under strict health protocols, and some regions, where the virus is less active, have started lifting most restrictions.

Economic activity and financing conditions are deteriorating

Downside risks to the outlook have started to mount due to the adverse effects of the global COVID-19 outbreak, lower oil prices and domestic lockdown measures. Real GDP declined by 2.4% during the first quarter of 2020, driven by a sharp deterioration in external demand and the impact of one-week of domestic lockdown measures during March. Energy demand declined by more than 15% during the lockdown. Consumer and business confidence plummeted during March and April to the lowest levels ever recorded. Employment sank in April to historical lows, amid a surge in unemployment and inactivity. Financial markets are under stress. Equity markets have fallen sharply, the government risk premium has risen and the peso has weakened strongly in the first half of the year amid large capital outflows and increased uncertainty. Together with substantially lower oil prices, considerable pressure has been put on the external and fiscal accounts.

Colombia: Demand, output and prices (single-hit scenario)

Colombia: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices COP trillion	Percentage changes, volume (2015 prices)				
GDP at market prices	863.8	1.4	2.5	3.3	-6.1	4.3
Private consumption	596.5	2.1	3.0	4.5	-4.8	4.8
Government consumption	125.6	3.6	7.0	4.3	3.6	1.7
Gross fixed capital formation	191.2	1.9	1.5	4.3	-15.1	1.7
Final domestic demand	913.3	2.2	3.3	4.4	-5.7	3.7
Stockbuilding[1]	9.0	-1.2	0.1	-0.1	-0.1	0.1
Total domestic demand	922.2	1.1	3.4	4.3	-6.7	3.8
Exports of goods and services	127.1	2.6	0.9	2.6	-15.8	2.2
Imports of goods and services	185.6	1.0	5.8	8.1	-16.8	0.5
Net exports[1]	- 58.5	0.2	-1.0	-1.3	1.2	0.2
Memorandum items						
GDP deflator	_	5.1	4.5	4.3	2.3	3.0
Consumer price index	_	4.3	3.2	3.5	3.0	2.8
Core inflation index[2]	_	4.9	2.9	3.0	2.8	2.6
Unemployment rate (% of labour force)	_	9.4	9.7	10.5	18.0	16.0
Current account balance (% of GDP)	_	-3.3	-3.9	-4.3	-3.8	-3.7

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding primary food, utilities and fuels.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137542

Policy has responded quickly and boldly to the unprecedented shock

The authorities have rolled out a wide set of relief measures aimed at cushioning the economic fallout from the pandemic. Measures have aimed at preventing the most vulnerable groups falling into poverty, through expanded social programmes and new cash transfers, including to informal workers, and subsidies to wages to prevent massive layoffs from formal employment. To support firms, especially SMEs, the government announced the provision of credit guarantees, deferrals of capital payments of existing loans, and cancelled pension contributions. The central bank cut the policy rate to low historical levels, began asset purchases, and ensured the adequate provision of liquidity in both the domestic financial market and foreign exchange rate markets to support credit supply. These measures help to preserve jobs, firms and capital, and will help the economy to rebound gradually.

The economy is entering a deep recession

The COVID-19 pandemic and the sharp oil price decline have severely disrupted the recovery in the near term, and will cause an unprecedentedly deep recession in 2020. In the case of a second outbreak, more containment measures should be expected in the second half of 2020. If the current outbreak is tamed, a gradual recovery is expected, but some sectors, such as entertainment and tourism, will be paralysed for a long time. Investment will suffer a large drop during 2020, but grow gradually helped by lower corporate taxes and fiscal exemptions introduced by the tax reform at the end of 2019. Further increases in unemployment and informality could require more resources to support the creation of formal jobs. With an already limited fiscal space, the projected larger fiscal deficits and public debt could lead to difficult financial conditions. Other risks are the appearance of liquidity and solvency issues among firms, which would lead to a deterioration of the credit portfolio and thus affect credit supply and financial vulnerabilities.

Heightened global risk aversion could result in further capital outflows, pressuring the currency and further widening the risk premium. An adequate level of international reserves and the newly renewed flexible credit line with the IMF could cushion heightened external vulnerabilities together with the flexible exchange rate.

Policy should continue to support the recovery

Fiscal policy should continue to provide resources to the health system to develop test, track and trace programmes. Support measures for families and firms should be reviewed and adapted with the gradual return of economic activity, efficiently refocusing transfers to jobless vulnerable workers in the most affected sectors and fostering formal employment, through lower non-wage costs. Fiscal space can be found by making efficient reallocations of public spending, including the elimination of numerous exemptions in the tax system. Monetary policy should remain accommodative and supportive as needed. The credible monetary policy framework is helping to absorb the external shock.

Costa Rica

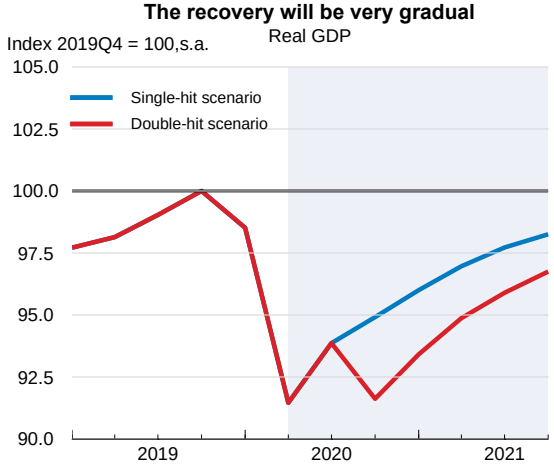
Economic activity is projected to contract by around 5% in 2020, before rebounding by 1½ per cent in 2021, if there is a second COVID-19 outbreak in the autumn of 2020. The protracted recovery will hinge on the delayed normalisation of tourism, with the affected sectors likely to be subject to near complete shutdowns until the last quarter of 2020. If the pandemic subsides soon, GDP will shrink by about 4% in 2020 and expand by around 2¾ per cent in 2021, due to a stronger recovery in domestic demand and exports. Headline inflation will initially decline more than core inflation due to subdued energy prices. The surge in unemployment will depress private consumption.

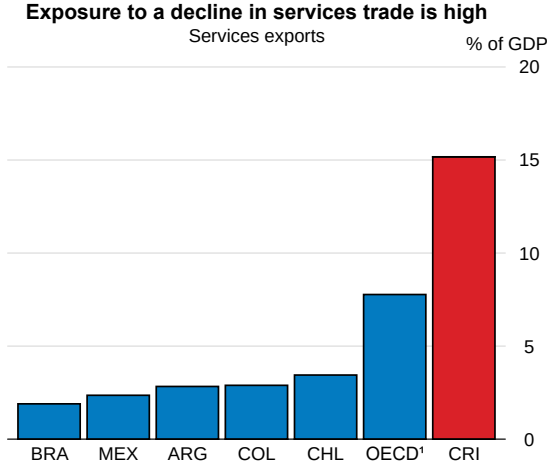
Prior to the pandemic, Costa Rica was determined to reduce the high budget deficit and apply a fiscal rule that restrains public spending growth. Even if the authorities have appropriately increased health and social protection spending, they aim to return to a deficit-reduction path once the crisis moderates. Ensuring that support programmes reach out primarily those who have lost their job or part of their wages, both in the formal and informal sector, is key to preserve incomes. Continuing with the implementation of the wide array of reforms linked to the OECD accession process would support the recovery and help reduce social inequalities.

The health system has proved to be resilient

Costa Rica has been less severely hit by the pandemic than other countries thanks to the swift reaction of the authorities. The spread of the CODIV-19 virus still required a set of lockdown measures, including the closing of borders to tourism, which is a crucial source of income and jobs. The propagation of the virus started in early March and accelerated in April. Following a slowdown in early May, the number of cases slightly increased in late May.

Costa Rica





1. OECD refers to a GDP-weighted average.
Source: OECD Economic Outlook 107 database; and World Bank World Development Indicators.

StatLink https://doi.org/10.1787/888934139214

Costa Rica: Demand, output and prices (double-hit scenario)

Costa Rica: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices CRC trillion	Percentage changes, volume (2012 prices)				
GDP at market prices	31.1	3.9	2.7	2.1	-4.9	1.5
Private consumption	20.0	3.6	2.0	1.6	-2.0	1.3
Government consumption	5.4	3.1	0.5	4.9	1.4	0.3
Gross fixed capital formation	5.7	-2.5	3.0	-6.4	-11.2	3.0
Final domestic demand	31.0	2.4	1.9	0.7	-2.9	1.4
Stockbuilding[1]	0.0	1.5	-0.7	0.6	-0.4	0.0
Total domestic demand	31.1	3.8	1.1	1.2	-3.4	1.4
Exports of goods and services	10.0	4.0	4.7	2.7	-12.2	0.8
Imports of goods and services	9.9	3.7	0.1	0.2	-7.6	0.6
Net exports[1]	0.1	0.0	1.6	0.9	-1.5	0.0
Memorandum items						
GDP deflator	_	2.6	2.5	1.7	1.2	1.6
Consumer price index	_	1.6	2.2	2.1	1.0	1.7
Core inflation index[2]	_	1.2	2.1	2.4	1.2	1.5
Unemployment rate (% of labour force)	_	9.1	10.3	11.8	17.0	15.5
Current account balance (% of GDP)	_	-3.3	-3.3	-2.5	-4.8	-4.1

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137561

The government declared a national state of emergency in mid-March. The authorities closed borders to foreign entry, suspended the cruise season and imposed restrictions on foreign residents when leaving the country. Schools, recreational areas and businesses that involve social gatherings were closed and private vehicle traffic was restricted. During confinement, establishments with operating permits were allowed to remain functional, but only at 50% capacity. Health authorities transformed an existing hospital into a specialised care centre, increased the supply of diagnostic tests, protective equipment and essential medicines, and provided free COVID-19 testing and treatment. The authorities aim to have reserved 2 thousand beds for COVID-19 patients and expect to have increased the ventilator capacity before late June. The government also provided delivery of food and home care for 15 thousand senior citizens. The authorities announced in mid-May an exit strategy that aims to gradually phase out confinement measures until August, assuming that the pandemic will subside by then.

The contagion has taken a toll on growth and employment and raised sovereign credit risk

The estimated initial output loss from the confinement measures in the first half of the year could reach 22%. The global growth slowdown has additionally hit foreign demand, hampering GDP and employment growth. This is particularly due to the economic importance of services exports, which is higher than in other countries in the region and the OECD area, and the significant contribution of tourism to employment. Around 7100 companies, employing more than 8% of all workers, have applied to the temporary work scheme introduced by the government, which allows distressed firms to proportionally reduce working hours and salaries. The government temporarily invoked the emergency escape clause embedded in the fiscal rule only for health-related institutions, and intends to reinstate the fiscal rule by 2021. Sovereign risk premia have increased by around 300 basis points, given the high fiscal deficit and public debt. The authorities have recently secured four credit lines at below-market interest rates from multilateral institutions, exceeding 2% of GDP.

Costa Rica: Demand, output and prices (single-hit scenario)

Costa Rica: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices CRC trillion	Percentage changes, volume (2012 prices)				
GDP at market prices	31.1	3.9	2.7	2.1	-4.1	2.7
Private consumption	20.0	3.6	2.0	1.6	-1.3	2.6
Government consumption	5.4	3.1	0.5	4.9	1.0	0.4
Gross fixed capital formation	5.7	-2.5	3.0	-6.4	-9.2	4.8
Final domestic demand	31.0	2.4	1.9	0.7	-2.2	2.5
Stockbuilding[1]	0.0	1.5	-0.7	0.6	-0.4	0.0
Total domestic demand	31.1	3.8	1.1	1.2	-2.7	2.4
Exports of goods and services	10.0	4.0	4.7	2.7	-10.4	1.6
Imports of goods and services	9.9	3.7	0.1	0.2	-6.3	0.9
Net exports[1]	0.1	0.0	1.6	0.9	-1.3	0.2
Memorandum items						
GDP deflator	_	2.6	2.5	1.7	1.4	1.9
Consumer price index	_	1.6	2.2	2.1	1.3	2.0
Core inflation index[2]	_	1.2	2.1	2.4	1.4	1.9
Unemployment rate (% of labour force)	_	9.1	10.3	11.8	15.9	13.9
Current account balance (% of GDP)	_	-3.3	-3.3	-2.5	-4.4	-3.8

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137580

Both monetary and fiscal policies have reacted

The central bank has reduced the policy interest rate by 100 basis points to 1.25% and eased liquidity conditions. Financial supervisors temporarily reduced counter-cyclical buffer provisions and modified prudential regulations to create space for the re-profiling of credit repayments of distressed borrowers. Fiscal authorities declared a 3-month moratorium on customs duties as well as value–added, income, and tourism taxes, and a deferral of payments of social security contributions. The authorities introduced a loan programme for firms, providing start-up and working capital finance and a direct cash transfer programme targeted at individuals who lost their job or faced reduced working hours, including those in the informal sector. Monetary and macro-prudential measures will ease credit and liquidity conditions. Cash transfers will support private consumption and mitigate poverty in the short term.

The economy will suffer a recession and the recovery will be gradual

In the double-hit scenario, the services sector, and particularly tourism firms, will operate below capacity until the end of 2020, decreasing employment. The domestic demand and export outlook will deteriorate in the fourth quarter of 2020 due to the second outbreak of the pandemic. Tourism is projected to recover gradually in 2021. The limited support measures and the disruption in global supply chains will weigh on private consumption and investment. Inflation will decline in the near term, given the reduction in domestic demand and lower oil prices, which will partly offset the negative effects on net exports. Fiscal spending will be allocated more to transfers than purchases of goods. In the single-hit scenario, the recovery in 2021 will be stronger, helped by carryover effects from a gradual resumption of tourism and exports in the second

half of 2020. The economic contraction will lead to a significant loss of revenues and widen the central government fiscal deficit to near 9% of GDP in 2020, with central government debt reaching around 70% of GDP in both scenarios. Key downside risks are a drop in confidence due to a failure to proceed with fiscal consolidation, which would hamper public debt sustainability, and additional episodes of financial volatility in emerging economies. Imperfect implementation of the temporary work scheme might increase informality and unemployment rapidly. On the upside, a faster–than–expected normalisation in the global tourism outlook would accelerate the recovery of exports.

The fiscal response should be temporary

Income support payments should be maintained as long as confinement measures weigh on jobs and household earnings. However, it is vital to ensure that the fiscal responses to the COVID-19 shock are temporary and well targeted. Expenditure items that are typically hard to reverse, such as public hiring or subsidies without explicit sunset clauses, should be avoided. Additional but limited interest rate cuts will further ease domestic financial conditions. Creating incentives to invest in export diversification in sectors that are less reliant on social interactions and international passenger travels would provide insurance against future foreign demand shocks and could offer an opportunity to move towards higher-productivity activities.

Czech Republic

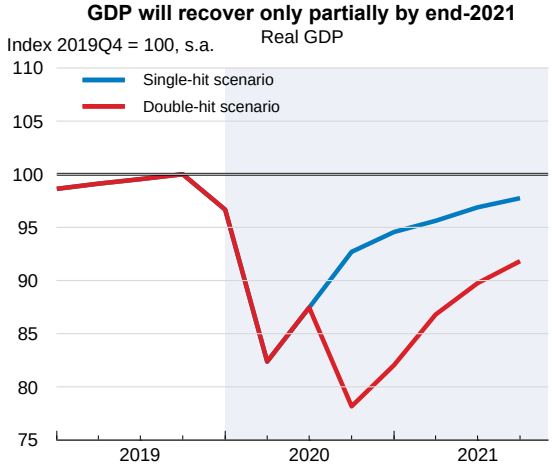
The spread of the COVID-19 pandemic has been contained effectively and the government has started to lift containment measures gradually. Nevertheless, the lockdown and disrupted supply chains have had a deep adverse economic impact. If a further virus outbreak returns before the end of the year, GDP is projected to decrease by 13.2% in 2020. If, on the other hand, the virus outbreak subsides in the coming months, GDP may fall by 9.6%. The economy is projected to recover only partially by end-2021. Bold policy support will help the economy recover from the crisis, but unemployment will rise significantly from low levels.

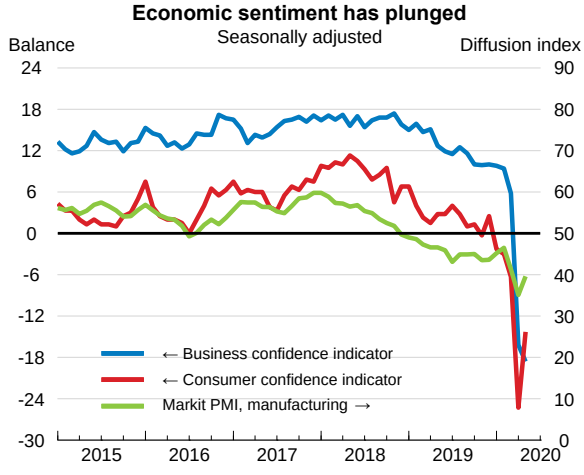
Considerable policy space permits continued support of the economy, although at 0.25%, the Czech National Bank now has limited room to reduce policy interest rates. It could further lower the counter-cyclical capital buffer, as well as introduce quantitative easing, if needed. Fiscal space is available to continue supporting the economy and alleviating hardship while the crisis continues. In a longer-term perspective, boosting R&D investment and strengthening lifelong learning would help future growth. Reducing the time needed to obtain construction permits would boost investment and help restart the economy.

The authorities took early and bold steps to contain the spread of the virus

The Czech health system was relatively well equipped to respond to the crisis, with the number of doctors and acute hospital beds above the OECD average. As the threat of the pandemic rose, additional resources were channelled to the health sector and adjustments were made to raise capacity to treat COVID-19 patients.

Czech Republic





Source: OECD Economic Outlook 107 database; Czech Statistical Office; Markit.

StatLink https://doi.org/10.1787/888934139233

Czech Republic: Demand, output and prices (double-hit scenario)

Czech Republic: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices CZK billion	Percentage changes, volume (2010 prices)				
GDP at market prices	4 765.8	4.5	2.8	2.5	-13.2	1.7
Private consumption	2 242.1	4.4	3.2	3.0	-11.1	6.3
Government consumption	918.7	1.3	3.4	2.6	6.9	2.5
Gross fixed capital formation	1 188.1	4.0	7.5	2.7	-28.6	-8.4
Final domestic demand	4 348.9	3.6	4.4	2.8	-11.8	2.0
Stockbuilding[1]	49.9	0.1	-0.4	0.2	-0.7	0.0
Total domestic demand	4 398.8	3.7	3.9	3.0	-12.6	2.0
Exports of goods and services	3 789.8	7.1	4.4	1.0	-14.0	3.0
Imports of goods and services	3 422.8	6.3	5.9	1.5	-13.2	3.6
Net exports[1]	367.0	1.1	-0.8	-0.3	-1.4	-0.3
Memorandum items						
GDP deflator	_	1.4	2.6	3.5	3.3	2.2
Consumer price index	_	2.5	2.1	2.8	2.9	1.4
Core inflation index[2]	_	2.0	2.4	2.5	3.1	1.5
Unemployment rate (% of labour force)	_	2.9	2.2	2.0	3.8	5.0
General government financial balance (% of GDP)	_	1.5	0.9	0.3	-8.3	-5.1
General government gross debt (% of GDP)	_	43.9	40.4	38.5	47.9	52.3
General government debt, Maastricht definition (% of GDP)	_	34.6	32.5	30.7	40.2	44.6
Current account balance (% of GDP)	_	1.7	0.4	-0.4	1.7	0.7

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137599

The pandemic started gathering pace after 9 March, when the first infection of a person without travel history was confirmed. A state of emergency was proclaimed on 12 March. Internal travel and gathering in groups were restricted and international travel banned. Restaurants, hotels and most stores were closed. In the first half of April, the number of people with confirmed COVID-19 infections started to fall. Signs of a rapid containment of the pandemic allowed the government to commence a gradual lifting of restrictions on society and the economy in mid-April.

The stoppage of car production is weighing on the economy

The lockdown had an immediate strong negative impact on economic activity. In March, retail sales fell 9% year-on-year. Similarly, industrial output fell by 11%. Notably, the automobile industry was forced to stop production for almost a month due to international supply chain disruptions and a drop in demand, with repercussions for many domestic SMEs. The purchasing managers index (PMI) indicates a significant drop in manufacturing, and economic sentiment has plunged. The Prague Stock Exchange PX index lost close to 40% of its value from the beginning of the year to mid-March, but recovered about half of it by end-May. The koruna depreciated close to 6% against the euro in the first five months of the year. The unemployment rate started to rise from very low levels. In April, the survey-based unemployment rate rose to 2.3% and the registered unemployment rate rose to 3.4%. According to official estimates, short-time work schemes helped maintain more than 500 thousand jobs by mid-May, with more than 55 thousand applications for support, reflecting mounting slack in the labour market.

Czech Republic: Demand, output and prices (single-hit scenario)

Czech Republic: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices CZK billion	Percentage changes, volume (2010 prices)				
GDP at market prices	4 765.8	4.5	2.8	2.5	-9.6	7.1
Private consumption	2 242.1	4.4	3.2	3.0	-6.9	9.9
Government consumption	918.7	1.3	3.4	2.6	6.9	2.0
Gross fixed capital formation	1 188.1	4.0	7.5	2.7	-22.0	14.0
Final domestic demand	4 348.9	3.6	4.4	2.8	-8.0	8.7
Stockbuilding[1]	49.9	0.1	-0.4	0.2	-0.8	0.0
Total domestic demand	4 398.8	3.7	3.9	3.0	-8.8	8.7
Exports of goods and services	3 789.8	7.1	4.4	1.0	-9.8	11.7
Imports of goods and services	3 422.8	6.3	5.9	1.5	-8.8	14.3
Net exports[1]	367.0	1.1	-0.8	-0.3	-1.3	-1.1
Memorandum items						
GDP deflator	_	1.4	2.6	3.5	3.3	2.3
Consumer price index	_	2.5	2.1	2.8	3.0	1.9
Core inflation index[2]	_	2.0	2.4	2.5	3.1	1.9
Unemployment rate (% of labour force)	_	2.9	2.2	2.0	3.5	3.8
General government financial balance (% of GDP)	_	1.5	0.9	0.3	-6.5	-2.2
General government gross debt (% of GDP)	_	43.9	40.4	38.5	45.7	46.4
General government debt, Maastricht definition (% of GDP)	_	34.6	32.5	30.7	37.9	38.7
Current account balance (% of GDP)	_	1.7	0.4	-0.4	1.5	-1.3

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137618

Considerable policy space permitted bold policy support

At the onset of the crisis, policy interest rates were relatively high and public debt was low. Short-time work schemes, benefit payments to the self-employed, income support to workers caring for children, and tax-deferrals have been introduced. Moreover, a COVID loan and guarantee programme has been launched to boost firm liquidity, notably for SMEs. Further support has been offered through deferrals of rent and loan repayments. The Ministry of Finance estimates the size of the support at CZK 1.13 trillion (20.4% of GDP), of which one-quarter is direct budget support and deferred taxes, and the rest is liquidity support and guarantees. In the period from March to May, the Czech National Bank (CNB) cut policy rates three times, from 2.25% to 0.25%, and communicated that it stood ready to do more, including koruna support and quantitative easing. To help banks extend credit, the CNB also lowered the counter-cyclical capital buffer (from 1.75% to 1%).

The economy will not recover fully by the end of 2021

The projections assume a lockdown limited to 6 weeks in the first half of 2020, with a gradual lifting of measures thereafter. Moreover, the double-hit scenario assumes another virus outbreak later in the year with a renewed – more limited - lockdown, but also additional policy support. GDP will contract sharply, and recovery will be only gradual due to prolonged uncertainty. The unemployment rate will rise significantly, and inflation will subside from current levels outside the tolerance band. In the single hit-scenario, recovery will be faster and policy support will help prevent lasting damage to capacity, including by limiting the rise in unemployment. Nevertheless, GDP will not reach its pre-crisis level by the end of the projection period. Both scenarios result in a substantial rise in government budget deficits and

public debt. Uncertainty about the outlook is unusually high. Bringing back on stream numerous companies and fully restoring the international automobile supply chain may take longer than expected and additional setbacks could again force shutdowns.

The policy stance should continue to be supportive if needed

After a cumulative cut of 200 basis points between March and May, the Czech National Bank now only has limited room to reduce interest rates further. It could however reduce the counter-cyclical capital buffer further, if needed. It could also launch quantitative easing to counter a potential increase in interest rates at longer maturities. Bank credit quality should be monitored closely to anticipate and address a potential surge in bad loans. Further fiscal stimulus through temporary and well-targeted programmes may be required in event of a second outbreak or continued strains in the economy. Support to R&D investment and enhanced skills building through training and lifelong learning, notably for low-skilled workers, could help productivity growth over the medium term as well as labour reallocation where needed. Shortening the lengthy procedures for obtaining construction permits could importantly boost investment and help restart the economy.

Denmark

Containment measures to curb the pandemic and associated uncertainty will cause a sharp contraction in economic activity, by more than 7% in 2020 if there is another virus outbreak later in the year (the double-hit scenario) and by almost 6% if further shutdown measures are avoided (the single-hit scenario). A second outbreak would result in significant scars from prolonged unemployment and many bankrupt businesses, delaying the recovery. In the single-hit scenario, the brief and more limited shutdown than in other OECD countries combined with sizeable government support will limit economic and well-being costs. In both scenarios, favourable export specialisation partly weathers the initial trade disruptions, but eventually external demand will largely determine the recovery path.

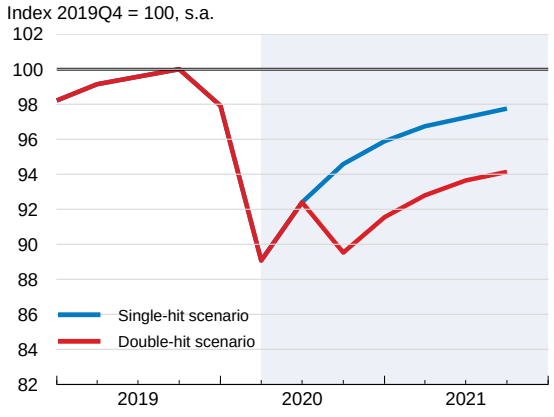
Forceful fiscal action has protected the economy and limited the rise in unemployment. Temporary and broad support schemes for businesses and workers have been implemented and prolonged twice. They should be allowed to expire and be replaced by more targeted support to viable businesses and sectors as the reopening phase matures and in case of a second outbreak. This will be important to avoid a surge in zombie firms and to preserve a flexible labour market that facilitates a needed reallocation of workers to new jobs. Further public investments to reduce emissions and mitigate climate risks would be timely to accelerate and green the recovery.

Rapid action contained the spread of the virus

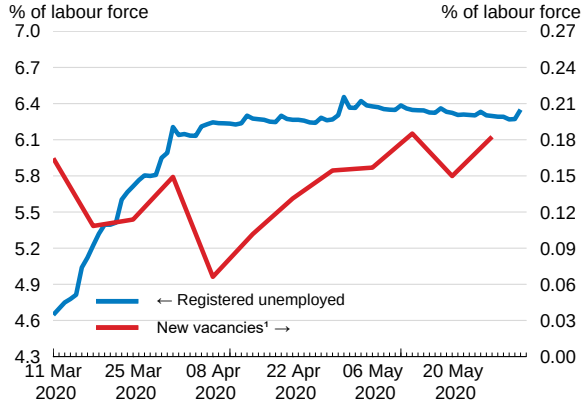
The pandemic arrived with the first confirmed case in late February and the numbers increased quickly in early March. Most of the initial cases reflected returning tourists from Austria and Italy, permitting the government to take early preventive action and limiting the pandemic mainly to the Copenhagen area. The daily death toll and hospitalised COVID-19 patients peaked around 1 April 2020 at a low level compared to other European countries. While the health system is efficient and well resourced, the initial anticipation of a larger outbreak required a rapid expansion of the number of intensive care beds.

Denmark

A second virus outbreak would scar the recovery
Real GDP



The fast increase in unemployment has stopped



1. Weekly data.
Source: OECD Economic Outlook 107 database; Danish Agency for Labour Market and Recruitment; and Statistics Denmark.

StatLink https://doi.org/10.1787/888934139252

Denmark: Demand, output and prices (double-hit scenario)

Denmark: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices DKK billion	Percentage changes, volume (2010 prices)				
GDP at market prices	2 107.7	2.0	2.4	2.4	-7.1	0.9
Private consumption	983.7	1.6	2.6	2.2	-7.0	2.0
Government consumption	524.2	1.0	0.4	0.5	1.8	2.4
Gross fixed capital formation	443.1	3.0	5.4	3.4	-10.5	-1.6
Final domestic demand	1 951.0	1.8	2.7	2.0	-5.5	1.3
Stockbuilding[1]	15.8	-0.1	0.3	-0.4	-0.4	0.0
Total domestic demand	1 966.8	1.6	3.1	1.7	-5.9	1.3
Exports of goods and services	1 126.1	4.6	2.4	1.6	-10.2	1.0
Imports of goods and services	985.2	4.3	3.6	0.1	-8.2	1.9
Net exports[1]	140.9	0.5	-0.4	0.8	-1.7	-0.4
Memorandum items						
GDP deflator	_	1.1	0.8	1.0	0.7	0.5
Consumer price index	_	1.1	0.8	0.8	0.4	0.2
Core inflation index[2]	_	0.9	0.6	0.8	0.7	0.2
Unemployment rate (% of labour force)	_	5.8	5.1	5.0	7.0	9.1
General government financial balance (% of GDP)	_	1.5	0.5	3.7	-9.1	-7.2
General government gross debt (% of GDP)	_	49.1	47.8	47.1	60.5	64.6
General government debt, Maastricht definition (% of GDP)	_	35.8	34.0	33.2	46.6	50.8
Current account balance (% of GDP)	_	7.8	7.0	7.8	5.5	4.8

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137637

The government closed most activities and services that do not permit sufficient physical distance in early March. Childcare and schools had to close and all non-critical public sector employees were ordered to work from home. Most of the private sector, including larger stores, could continue to function. A gradual reopening started after one month, beginning with childcare, lower primary schools and one-to-one services such as hairdressers. From mid-May, most economic activities were allowed to re-start. Border closures in place since mid-March are set to last until the end of August, while restrictions on public gatherings are gradually being eased.

Economic activity dropped by up to one-fifth

While in place, the containment measures may have reduced economic activity by 10-20%, according to national estimates. Hotels and restaurants, cultural activities and some services almost shut down completely, whereas around one-fifth of activity stopped in the manufacturing, trade and transportation sectors. Payment transactions likewise indicate a 10-20% reduction in consumer spending and electricity consumption fell by around 10% on workdays. The drops in consumer and business confidence are of the same magnitude as during the global financial crisis, but are much more abrupt. Unemployment increased fast during the second half of March, but the increase then slowed markedly. A job retention scheme agreed between the government and social partners allowed employers to retain more than 7% of the labour force on furlough with up to 90% wage subsidies.

Denmark: Demand, output and prices (single-hit scenario)

Denmark: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices DKK billion	Percentage changes, volume (2010 prices)				
GDP at market prices	2 107.7	2.0	2.4	2.4	-5.8	3.7
Private consumption	983.7	1.6	2.6	2.2	-5.5	5.1
Government consumption	524.2	1.0	0.4	0.5	1.8	1.8
Gross fixed capital formation	443.1	3.0	5.4	3.4	-9.7	1.0
Final domestic demand	1 951.0	1.8	2.7	2.0	-4.6	3.3
Stockbuilding[1]	15.8	-0.1	0.3	-0.4	-0.4	0.0
Total domestic demand	1 966.8	1.6	3.1	1.7	-4.9	3.3
Exports of goods and services	1 126.1	4.6	2.4	1.6	-8.2	5.0
Imports of goods and services	985.2	4.3	3.6	0.1	-6.7	4.5
Net exports[1]	140.9	0.5	-0.4	0.8	-1.3	0.5
Memorandum items						
GDP deflator	_	1.1	0.8	1.0	0.7	0.6
Consumer price index	_	1.1	0.8	0.8	0.4	0.4
Core inflation index[2]	_	0.9	0.6	0.8	0.7	0.4
Unemployment rate (% of labour force)	_	5.8	5.1	5.0	6.6	6.5
General government financial balance (% of GDP)	_	1.5	0.5	3.7	-7.6	-3.8
General government gross debt (% of GDP)	_	49.1	47.8	47.1	57.7	57.4
General government debt, Maastricht definition (% of GDP)	_	35.8	34.0	33.2	43.8	43.5
Current account balance (% of GDP)	_	7.8	7.0	7.8	5.8	6.3

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137656

The fiscal support to firms and workers is massive

Policymakers acted decisively and implemented discretionary fiscal support of around 5% of GDP for 2020. Additional support to businesses through liquidity measures, notably tax and VAT deferrals, and government guarantees brings total support close to 18% of GDP. The vast amount of cash support is devoted to the job retention scheme and compensation schemes to cover companies' fixed costs and incomes of self-employed with sizeable drops in revenue. Other initiatives include compensation to hard affected cultural activities, extending unemployment benefit periods and providing loans to entrepreneurs. A social policy package aims to help vulnerable groups with additional protection and preventing isolation. The financial sector has committed to assist firms and households with additional loans and payment holidays, backed by a release of the counter-cyclical capital buffer and extraordinary lending facilities from the central bank. The sole objective of monetary policy remains to keep a hard peg to the euro, which required an odd policy rate increase to -0.6% by mid-March.

The recovery will be gradual and depend on the external environment

Both scenarios assume continued lifting of containment measures with almost all economic activity resumed by August. Pent-up demand from household consumption and business investment will initially boost the recovery. While a large share of furloughed workers is expected to return to their job, a delayed unemployment surge is foreseen, also from expiring notice periods. Layoffs by late 2020 are assumed to be substantially higher in the double-hit scenario as a second shutdown in some sectors would push more firms into bankruptcy and increased uncertainty would delay investments. This would leave permanent effects on the economy from labour market exits, eroding skills and loss of firm-specific knowledge. The

main risks to both scenarios relate to the external environment. Exports have a large share of pharmaceuticals and food products, providing more resilience to trade disruptions. Still, collapsing demand in export markets could result in a larger-than-expected contraction and an even slower recovery.

Policies should retain a flexible labour market and competitive businesses

The restart of the economy should take advantage of the strong labour market institutions in place, including opportunities for re-skilling. The job retention scheme has provided a welcome temporary freeze of employer-employee relations, but contrasts strongly with the Danish tradition of flexibility and high job turnover. The scheduled phase-out by end of August and more emphasis on short-time work and upskilling is thus welcome. The government has taken welcome steps to front-load public investment in municipalities and boost energy renovation of social housing. Structural initiatives to accelerate the government's ambitious climate agenda should also be considered as part of a green recovery. Short-term stimulus may be achieved through staggered implementation, such as lowering some distortionary taxes and fees, while announcing a future increase in the carbon tax.

Estonia

The COVID-19 outbreak is having a sharp impact on the economy. A second virus outbreak would delay the return of consumption and investment, which, together with the impact of virus confinement measures, could reduce real GDP by 10% in 2020. If the virus outbreak subsides by the summer, there would be a quicker recovery in consumer and business confidence and the fall in output would be lower, at 8.4% in 2020. Virus containment measures have been successful and widespread testing is readying the economy to open up. The large rise in unemployment is concerning given that it may erode the substantial activation of disadvantaged workers that has occurred in recent years.

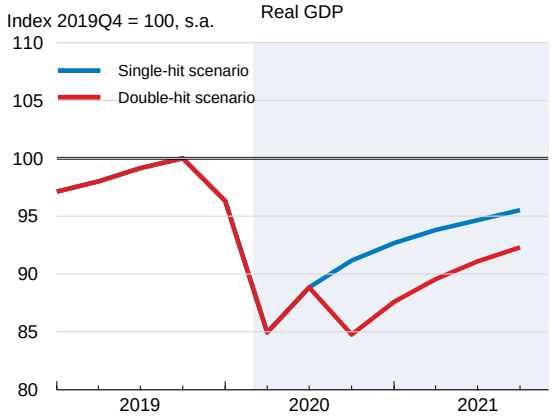
There has been a significant fiscal response to the crisis. Ensuring adequate health resources for a potential second outbreak is a priority. Further support for firms may be required should the crisis endure. Interventions are likely to be needed to support the newly unemployed without cover and those who lose access to emergency programmes, potentially by relaxing eligibility conditions for unemployment benefits; increasing access to subsistence benefits; and expanding training and active labour market policies.

The COVID-19 outbreak has been successfully contained

The pandemic response has so far resulted in fewer deaths and reduced transmission. The first case of COVID-19 was reported on 27 February and on March 12, the same day that local transmission was confirmed, the government announced a state of emergency establishing confinement measures. The country is well prepared for the relaxation of confinement, having set up a testing system with one of the highest coverage rates per population in the OECD.

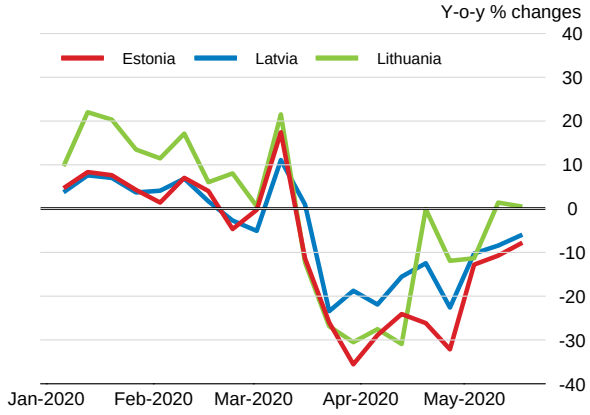
Estonia

The strength of the recovery depends on whether there is a second wave



Consumer spending fell by a third during confinement

Weekly card spending and cash withdrawal



Source: OECD Economic Outlook 107 database; and Swedbank.

StatLink https://doi.org/10.1787/888934139271

Estonia: Demand, output and prices (double-hit scenario)

Estonia: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	21.7	5.6	4.7	4.4	-10.0	1.6
Private consumption	11.2	2.8	4.3	3.3	-9.9	1.1
Government consumption	4.4	1.0	0.8	3.0	2.2	3.0
Gross fixed capital formation	5.1	12.8	0.9	13.8	-13.6	1.3
Final domestic demand	20.8	5.0	2.8	5.9	-8.3	1.6
Stockbuilding[1]	0.1	-0.5	1.0	-0.2	-0.7	0.0
Total domestic demand	20.8	4.3	3.8	5.5	-9.1	1.6
Exports of goods and services	16.8	3.8	4.3	5.2	-13.4	1.5
Imports of goods and services	16.0	4.2	5.7	3.9	-12.2	1.6
Net exports[1]	0.9	-0.1	-0.8	1.1	-1.4	0.0
Memorandum items						
GDP deflator	_	3.8	4.5	3.2	0.5	1.7
Harmonised index of consumer prices	_	3.7	3.4	2.3	0.0	0.7
Harmonised index of core inflation[2]	_	2.0	1.7	2.4	1.2	0.7
Unemployment rate (% of labour force)	_	5.8	5.4	4.4	10.1	11.2
General government financial balance (% of GDP)	_	-0.8	-0.6	-0.3	-9.3	-7.5
General government gross debt (% of GDP)	_	13.0	12.7	13.1	24.8	32.3
General government debt, Maastricht definition (% of GDP)	_	9.3	8.4	8.4	20.1	27.6
Current account balance (% of GDP)	_	2.7	2.0	2.2	-1.2	-1.1

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137675

Confinement measures were less severe than elsewhere and have been relaxed over time. Most stores, except shopping centres, were able to remain open during the state of emergency as long as there was sufficient distancing. Restaurants, bars, recreation/leisure and other entertainment establishments had to close early, except for take-away and deliveries. Educational institutions, excluding kindergartens, were closed and substituted by digital learning solutions. Borders were closed. Restrictions have been eased and the emergency situation ended on 17 May.

The initial decline in economic activity was large

Restrictions on economic activity and changing behaviour have had a sizeable impact on consumption and employment. A third of the economy consists of the most exposed sectors, including construction, wholesale and retail trade, air transport, accommodation and food, real estate, professional activities, and arts, entertainment and recreation. The unemployment rate rose by 0.6 percentage points between mid and end-March. Indications are that consumer spending, based on card and cash transactions, fell by a third during confinement. Business confidence deteriorated sharply in April, but remained unchanged in May. Mobility data show that people mostly stayed in their main location during confinement, reducing trips and distance travelled.

Estonia: Demand, output and prices (single-hit scenario)

Estonia: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	21.7	5.6	4.7	4.4	-8.4	4.3
Private consumption	11.2	2.8	4.3	3.3	-8.2	3.9
Government consumption	4.4	1.0	0.8	3.0	2.1	2.0
Gross fixed capital formation	5.1	12.8	0.9	13.8	-11.7	5.9
Final domestic demand	20.8	5.0	2.8	5.9	-7.0	4.0
Stockbuilding[1]	0.1	-0.5	1.0	-0.2	-0.7	0.0
Total domestic demand	20.8	4.3	3.8	5.5	-7.8	3.9
Exports of goods and services	16.8	3.8	4.3	5.2	-11.2	5.3
Imports of goods and services	16.0	4.2	5.7	3.9	-10.4	5.0
Net exports[1]	0.9	-0.1	-0.8	1.1	-1.0	0.4
Memorandum items						
GDP deflator	_	3.8	4.5	3.2	0.6	2.1
Harmonised index of consumer prices	_	3.7	3.4	2.3	0.1	1.3
Harmonised index of core inflation[2]	_	2.0	1.7	2.4	1.2	1.3
Unemployment rate (% of labour force)	_	5.8	5.4	4.4	9.2	8.1
General government financial balance (% of GDP)	_	-0.8	-0.6	-0.3	-7.9	-4.4
General government gross debt (% of GDP)	_	13.0	12.7	13.1	23.4	27.3
General government debt, Maastricht definition (% of GDP)	_	9.3	8.4	8.4	18.7	22.6
Current account balance (% of GDP)	_	2.7	2.0	2.2	-0.7	0.6

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137694

The fiscal policy response has been sizable

Since there is significant fiscal space, the pandemic-related fiscal stimulus has been large, at around 4.1% of 2019 GDP, contributing to a fiscal deficit of 9.3% of GDP in the double-hit case and 7.9% of GDP under the single-hit one in 2020. The stimulus includes resources for the health response, a temporary wage subsidy scheme, coverage for social contributions, transfers to local government, a temporary reduction in fuel excise taxes, and provision of liquidity to firms through KredEx, the government-owned financing institution for enterprises. Low public debt levels mean there is still fiscal space for a further substantial response to the pandemic. At the level of the euro area, the ECB has committed to “do everything necessary within its mandate” to support the economy through this shock. The Estonian central bank (Eesti Pank) has reduced the systemic risk buffer for commercial banks from 1% to 0% to make available EUR 110 million for banks to cover potential loan losses or to extend new loans.

A large contraction is expected, but the economy is in a good position to rebound

A second COVID-19 wave would result in a fall in output of 10% in 2020 and a slow return to growth. If there is only a single pandemic hit, the output contraction would be lower at 8.4% in 2020 and the recovery faster in 2021. The country is a very open economy that is vulnerable to falling demand in its main export markets. Reduced consumer and business confidence will impede consumption and investment even as confinement is eased. The growth rebound in 2021 relies on a recovery of consumption and investment,

rather than a large contribution from net exports. Following years of rapid wage growth, a significant drop in compensation is projected. The unemployment rate is set to increase to double-digits during 2020 in the double-hit scenario. Given that the labour market has absorbed many disadvantaged workers in recent years, there is a risk of sizeable lay-offs and hysteresis. Economic risks are diminished, as public debt is the lowest in the OECD. Specialisation in digital goods could accelerate exports and productivity growth.

Future policy should build on the strong initial response

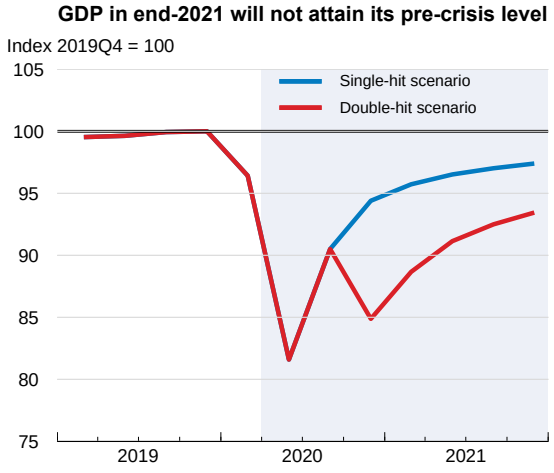
The large fiscal response to the crisis has eased the impact on employees and firms. Going forward, increased health resources to combat a potential second wave will be a priority, including mobilising resources to raise the ratio of nurses to physicians in acute care hospitals, and ensuring that the uninsured continue to have access to support from the Estonian Health Insurance Fund. Additional support for firms may be necessary if there is a delay in the recovery. It will be important to conduct a rapid assessment to identify the newly unemployed who may lose access to temporary programmes and/or are not covered by existing government schemes. Interventions should then be put in place to support the newly unemployed without cover, potentially by relaxing eligibility conditions for unemployment benefits; increasing access to, and the level of, subsistence benefits; and expanding training and active labour market policies. Estonia has the opportunity to use its rich digital data environment to monitor economic and social impacts, gather evidence on the results of government programmes and ensure appropriate targeting of measures to households and firms. Finally, the crisis has shown the importance of digital connectivity for firms. Public investment should support better coverage for ultra-fast broadband or other appropriate technology at an affordable cost, including subsidising last-mile rollout for smaller enterprises.

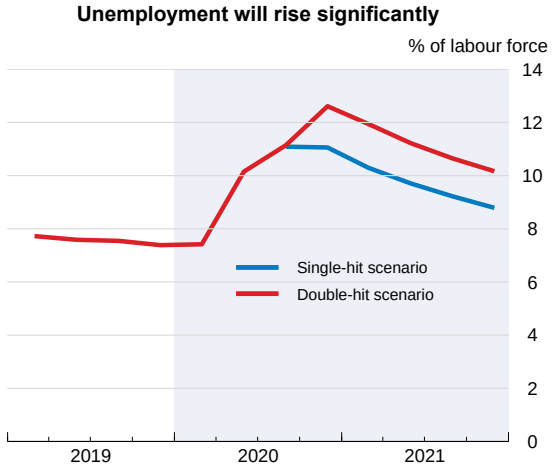
Euro area

Lockdown measures to suppress the COVID-19 pandemic have led to a major recession. If a second pandemic wave takes place later this year (the double-hit scenario), GDP is projected to contract sharply by 11.5% in 2020, and the unemployment rate will exceed 12% by end-2020, despite widespread use of short-time work schemes. If the virus remains contained after the end of lockdowns in spring 2020 (the single-hit scenario), GDP will fall by over 9% this year, the unemployment rate will reach double digits and average Maastricht public debt will exceed 100% of GDP by the end of the projection horizon. Substantial monetary and fiscal support will underpin the recovery once the lockdowns are lifted, but output and employment will still be much below pre-pandemic levels by end-2021, especially in the double-hit scenario, heightening risks of persistent scarring effects, including larger divergence across the area.

Monetary and fiscal policies should remain supportive until at least end-2021, as any premature backtracking might derail the recovery. However, both national fiscal policies and the common monetary policy might become overburdened, especially in the case of a second outbreak. In this context, recent decisions to expand temporarily the role of the European Stability Mechanism or to help fund national short–term work schemes are positive initial steps. But more needs to be achieved. The recent proposal by the European Commission for a large European recovery plan, funded by common debt issuance and envisaging substantial grants to the most affected countries, is welcome. If swiftly adopted by member states in its current form, this recovery plan would provide a significant boost to European countries, notably to the most vulnerable ones. Eventually, these temporary supports should evolve into permanent common fiscal tools, such as a full-fledged European unemployment reinsurance scheme.

Euro area 1





Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934139290

Euro area: Demand, output and prices (double-hit scenario)

Euro area: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	10 780.9	2.7	1.9	1.3	-11.5	3.5
Private consumption	5 836.9	1.8	1.4	1.3	-12.7	5.5
Government consumption	2 230.8	1.3	1.1	1.8	2.7	1.5
Gross fixed capital formation	2 183.9	3.8	2.4	5.8	-16.2	3.2
Final domestic demand	10 251.7	2.1	1.6	2.4	-10.1	4.0
Stockbuilding[1]	56.5	0.4	0.1	-0.5	-0.2	0.0
Total domestic demand	10 308.2	2.6	1.7	1.9	-10.4	4.0
Net exports[1]	472.7	0.5	0.4	-0.5	-1.5	-0.4
Memorandum items						
GDP deflator	_	1.0	1.3	1.7	1.3	0.3
Harmonised index of consumer prices	_	1.5	1.8	1.2	0.4	0.2
Harmonised index of core inflation[2]	_	1.0	1.0	1.0	0.6	0.3
Unemployment rate (% of labour force)	_	9.1	8.2	7.6	10.3	11.0
General government financial balance (% of GDP)	_	-1.0	-0.5	-0.7	-10.9	-8.3
General government gross debt (% of GDP)	_	106.1	102.7	104.0	127.9	130.9
General government debt, Maastricht definition (% of GDP)	_	89.8	87.8	86.0	109.9	112.5
Current account balance (% of GDP)	_	3.7	3.6	3.1	2.6	2.2

Note: Aggregation based on euro area countries that are members of the OECD, and on seasonally-adjusted and calendar-days-adjusted basis.

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

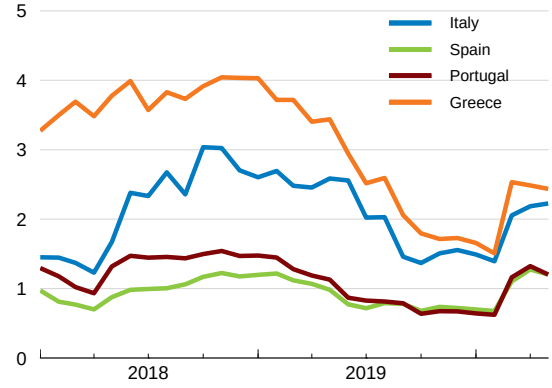
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137713

Euro area 2

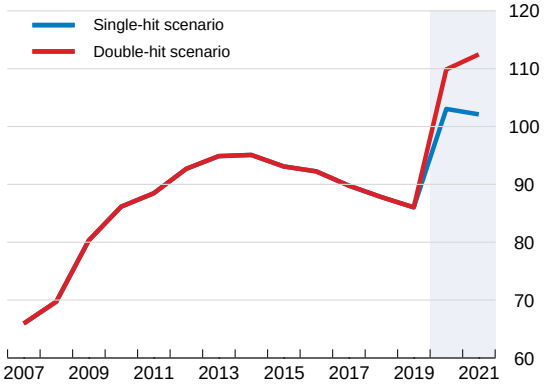
Tensions in sovereign debt markets have reemerged

10-year sovereign bonds, spread relative to German bund



The pandemic will strongly deteriorate public finances

Public debt, Maastricht definition



Source: OECD Economic Outlook 107 database; Refinitiv.

StatLink https://doi.org/10.1787/888934139309

Euro area: Demand, output and prices (single-hit scenario)

Euro area: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	10 780.9	2.7	1.9	1.3	-9.1	6.5
Private consumption	5 836.9	1.8	1.4	1.3	-9.9	8.6
Government consumption	2 230.8	1.3	1.1	1.8	2.4	1.1
Gross fixed capital formation	2 183.9	3.8	2.4	5.8	-12.6	8.1
Final domestic demand	10 251.7	2.1	1.6	2.4	-7.8	6.7
Stockbuilding[1]	56.5	0.4	0.1	-0.5	-0.2	-0.1
Total domestic demand	10 308.2	2.6	1.7	1.9	-8.0	6.7
Net exports[1]	472.7	0.5	0.4	-0.5	-1.3	0.1
Memorandum items						
GDP deflator	_	1.0	1.3	1.7	1.3	0.6
Harmonised index of consumer prices	_	1.5	1.8	1.2	0.4	0.5
Harmonised index of core inflation[2]	_	1.0	1.0	1.0	0.6	0.5
Unemployment rate (% of labour force)	_	9.1	8.2	7.6	9.8	9.5
General government financial balance (% of GDP)	_	-1.0	-0.5	-0.7	-9.2	-5.1
General government gross debt (% of GDP)	_	106.1	102.7	104.0	120.9	120.3
General government debt, Maastricht definition (% of GDP)	_	89.8	87.8	86.0	103.0	102.1
Current account balance (% of GDP)	_	3.7	3.6	3.1	2.7	2.6

Note: Aggregation based on euro area countries that are members of the OECD, and on seasonally-adjusted and calendar-days-adjusted basis.

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137732

Strong containment measures have limited contagion

The COVID-19 pandemic has deeply hit European countries. After a few isolated cases in the initial weeks of the year, mass contagion started in earnest in late February in northern Italy and shortly afterwards in many other euro area countries, notably Belgium, France, Germany and Spain. Some countries have been less affected so far, possibly because they imposed lockdowns at an earlier stage of contagion. Despite generally robust health systems, some countries and regions faced capacity constraints in hospitals at the peak of the outbreak, with patients in intensive care at an all-time high. In most countries, the number of new cases has been trending down since early April.

Unprecedented measures to limit contagion have been taken at national and European levels. To help countries cope with the health emergency, the European Commission has launched joint public procurements of protective equipment and provided financial support for medical purposes. Furthermore, in a coordinated move, EU countries agreed in March to restrict non-essential travel to the European Union, with some exceptions. However, most containment measures were taken at national level in March, including country-wide quarantines, closure of borders between euro area countries for non-essential travel and mandatory shutdown of large swathes of economic activity. From late April onwards, euro area countries have begun to roll back these measures gradually, but some restrictions will extend well into the third quarter.

Economic activity has contracted sharply

Containment measures have taken a huge toll on economic activity. In many of the largest euro area economies, direct output losses during periods of lockdown have been estimated at 25-30% compared to normal periods of activity. Services have been most affected, especially when still relying on direct contact between providers and clients, with tourism, also hit by travel restrictions, being a prime example. To a smaller extent, activity in manufacturing has been also severely hampered, especially in sectors, like car making, heavily dependent on international supply chains that have undergone major disruption. This disruption has spread car production cuts across borders, particularly affecting central European countries strongly integrated with Germany. Construction activity was also much reduced in many countries. Under the first few weeks of confinement alone, GDP in the first quarter of 2020 fell by 3.6% quarter-on-quarter, the largest decline ever recorded. In anticipation of huge adverse impacts on public finances, discussed below, tensions have resurfaced in sovereign debt markets, with vulnerable countries experiencing a significant rise in borrowing costs.

Economic support has been provided at the European level and by national budgets

The ECB has committed to act forcefully to support the economy through this shock. Since March, to preserve bank lending and liquidity, the ECB has announced new non-targeted longer-term refinancing operations, lowered twice the interest rate applied in targeted longer-term refinancing operations (TLTRO III) and eased collateral standards. In addition, action by the European Commission, the ECB and national authorities has provided temporary capital relief to banks, *inter alia* as regards the treatment of non-performing loans. Furthermore, the ECB has expanded its asset purchase programme by an overall EUR 1470 billion (12.3% of the euro area 2019 GDP). This mainly consists of the EUR 1350 billion Pandemic Emergency Purchase Programme, with net purchases set to continue until at least June 2021 and to which, in a welcome decision, some of the ECB self-imposed limits for asset purchases will not apply. Throughout the projection horizon, policy rates are set to remain unchanged, and asset purchases are assumed to keep long-term interest rates broadly stable for all euro area countries.

In the absence of a European fiscal capacity, the fiscal response to the crisis has been so far almost exclusively left to national budgets. Governments have been temporarily freed from the Stability and Growth Pact constraints and, as regards support to firms, allowed to use the full flexibility foreseen under state aid rules. Adopted measures have included short-time work schemes, increased healthcare spending, income support to households, tax deferrals, public loans and credit guarantees. Measures with a direct impact on the budget balance represent a discretionary stimulus in 2020 of about 3.5 percentage points of euro area GDP in the single-hit scenario, and marginally more in the double-hit one. At the European level, access to cohesion policy funding has been made faster and more flexible, inter alia through the possibility of zero national co-financing, which will help to shore up investment in the main recipient countries. Furthermore, low-conditionality facilities for lending to member states on favourable terms have been developed, but involving modest amounts. These facilities include the European Stability Mechanism (with a benchmark 2% of national GDP for loans for healthcare spending under the Pandemic Crisis Support) and a new scheme, SURE (offering an aggregate 0.7% of EU GDP to fund loans for national short-time work schemes). European Investment Bank guarantee schemes to mobilise funding for SMEs have also been expanded. More recently, the European Commission has proposed Next Generation EU, a far stronger response, envisaging EU borrowing of EUR 750 billion (5.4% of the EU 2019 GDP) to finance grants (almost 60% of the total), loans and guarantees, with a focus on those countries hit hardest by the recession. This plan, if swiftly adopted by member states, is expected to be operational from January 2021.

After a huge recession, the recovery faces important risks

The single-hit scenario assumes that the virus outbreak is contained by the summer, and so only one shutdown period of about two months that ended in May 2020, with restrictions gradually lifted afterwards. After an unprecedented GDP fall in the first half of 2020, affecting investment the most, a relatively swift recovery ensues, but output towards end-2021 is still 3% lower than in the last quarter of 2019. Dynamic job creation in 2021 progressively reduces the unemployment rate to below 9%. In the equally likely scenario of a second virus outbreak later in the year, output and employment losses in 2020 will be even heavier. GDP will fall by 11.5%, and the recovery will be delayed by approximately two quarters. Inflation will decline further, to close to zero. The joint effects of the recession, automatic stabilisers and discretionary fiscal stimulus make the area-wide Maastricht public debt rise to 112% of GDP. In both scenarios, southern countries tend to suffer the largest GDP falls in 2020, which poses risks of increased divergence within the euro area.

Deeper-than-expected scarring effects of the pandemic would weaken employment and investment for longer, threatening productive potential and social cohesion. The expected increase in non-performing loans could hurt the availability of bank credits and lead to evergreening behaviour. Acute market concerns about public debt sustainability in some euro area countries would make sovereign spreads soar, pushing those countries into excessive fiscal consolidation that would likely prove self-defeating. Similar pressure could stem from the reactivation of the current defective European fiscal rules and an excessively strict interpretation of them. On the upside, resolute joint action to tackle these risks would lead to a permanent improvement in the institutional architecture of the economic and monetary union.

A joint fiscal response is essential to support the recovery

To support the recovery and help stave off the above risks, the ECB should maintain a large degree of monetary accommodation over an extended horizon and keep departing from its self-imposed rules, notably regarding the cross-country allocation of its sovereign bond purchases, if required to make its policy effective. Setting up an asset management company at European level would help speed up resolution of non-performing loans.

In addition, the European fiscal response needs to be substantially upgraded, particularly since the countries hit hardest tend to be those with less fiscal space. Grants financed by common debt issuance would relieve pressure on national budgets and contribute to a supportive fiscal stance across the euro area, and thus to a more dynamic recovery. Coupled with ECB purchases, long-term loans at very low interest rates would strengthen debt sustainability. In this context, the swift adoption by member states of the proposed Next Generation EU recovery plan in its current version would be welcome.

The response to the pandemic crisis is also an opportunity to progress towards long-term targets and a better functioning monetary union. Investments under the recovery plan should help meet Europe's climate change mitigation targets. On the fiscal governance front, the temporary relaxation of the Stability and Growth Pact should be the opportunity for deeper reform, replacing the current multiplicity of numerical rules by an expenditure rule anchored to a debt-ratio target. In addition, strengthened coordination of national fiscal policies and the creation of a permanent common unemployment reinsurance scheme would help cyclical stabilisation of the common currency area in case of adverse economic shocks.

Finland

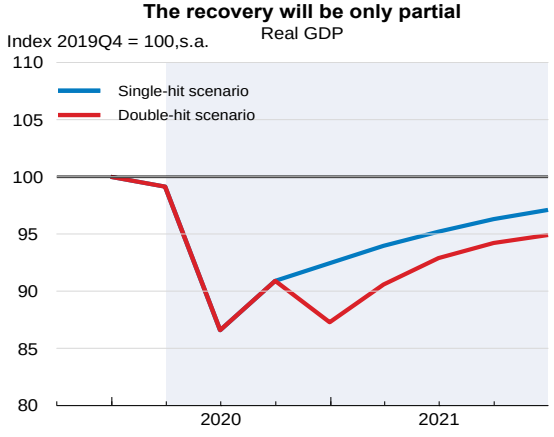
The COVID-19 pandemic has pushed Finland into a deep recession, with private consumption and investment as well as exports plunging in the first half of the year. In the event of a second virus wave, GDP is projected to fall by 9.2% in 2020 and to increase by only 2.4% in 2021. Absent a second virus wave, the decline in GDP will be smaller and the subsequent increase greater. A gradual recovery will be led by exports and consumption. Investment will be slower to recover owing to weakened balance sheets, low capacity utilisation and high uncertainty. Unemployment and bankruptcies will soar, although less so should there be no need for another shutdown.

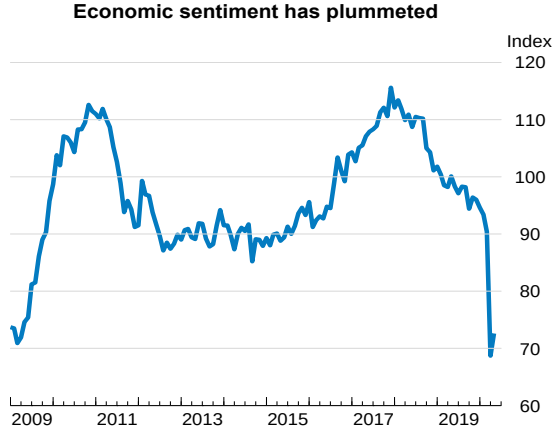
Measures to limit the spread of the virus continue to be necessary, including ensuring that adequate supplies of protective equipment are available for exposed workers and expanding testing, tracing and isolation of infected persons. Should more fiscal stimulus than announced so far be needed to support the recovery, it would be most effective if, like the new business subsidy announced in May 2020, it is well targeted. To help workers adapt to ongoing changes in the labour market, the public employment service should redesign active labour market policies, for instance by pairing online training and unemployment benefits.

Broad containment measures were implemented early

Finland confirmed its first COVID-19 case on 29 January 2020 and experienced rapid growth in the number of cases through March, but growth has slowed since then. The country has one of the lowest COVID-19 death rates in Europe. Finland has been relatively well equipped with personal protective equipment, such as surgical masks, although increased supplies will be needed to avoid future shortages. However, Finland has few intensive care unit (ICU) beds with ventilators by international comparison. Together with a relatively old population, this made it important to take distancing measures early.

Finland





Source: OECD Economic Outlook 107 database; and European Commission.

StatLink https://doi.org/10.1787/888934139328

Finland: Demand, output and prices (double-hit scenario)

Finland: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices EUR billion	Percentage changes, volume (2010 prices)				
GDP at market prices	217.5	3.1	1.6	0.9	-9.2	2.4
Private consumption	118.2	1.0	1.8	1.0	-9.4	1.6
Government consumption	51.5	-0.2	2.1	0.9	4.9	3.1
Gross fixed capital formation	49.4	4.0	3.7	-0.8	-14.6	-2.0
Final domestic demand	219.1	1.4	2.3	0.5	-7.3	1.3
Stockbuilding[1,2]	1.2	0.1	0.5	-0.8	1.0	0.0
Total domestic demand	220.3	1.6	2.9	-0.2	-6.2	1.3
Exports of goods and services	75.7	8.8	1.7	7.2	-14.7	3.1
Imports of goods and services	78.5	4.1	5.5	2.2	-9.0	0.4
Net exports[1]	- 2.8	1.6	-1.4	1.9	-2.3	1.0
Memorandum items						
GDP deflator	_	0.7	1.8	1.8	0.9	0.8
Harmonised index of consumer prices	_	0.8	1.2	1.1	0.8	0.5
Harmonised index of core inflation[3]	_	0.6	0.3	0.7	0.8	0.6
Unemployment rate (% of labour force)	_	8.6	7.4	6.7	9.1	10.3
General government financial balance (% of GDP)	_	-0.7	-0.9	-1.1	-8.4	-7.4
General government gross debt (% of GDP)	_	73.8	72.7	73.0	73.4	82.6
General government debt, Maastricht definition (% of GDP)	_	61.3	59.6	59.4	72.5	75.2
Current account balance (% of GDP)	_	-0.8	-1.6	-0.8	-2.9	-1.9

1. Contributions to changes in real GDP, actual amount in the first column.
2. Including statistical discrepancy.
3. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137751

The government declared a state of emergency in mid-March for the first time since the Second World War, and introduced broad containment measures. These included closing all schools and universities, banning public gatherings of over 10 people, suspending visits to nursing homes, closing borders to non-essential travel and shutting down restaurants and cafés except for takeaways. Furthermore, the Helsinki-Uusimaa region was quarantined from the rest of the country for three weeks, with exceptions for essential commuting and other work-related travel. Preparations have been made to expand temporary hospital capacity, if needed. Restrictions on business travel within the Schengen area were relaxed on 14 May. From 1 June, the limit on the number of people who may meet increased from 10 to 50 and restaurants and cafés reopened, albeit with reduced capacity owing to distancing requirements.

Economic activity is contracting fast

Economic growth was already slowing before the COVID-19 hit. Since the pandemic struck, economic conditions have worsened markedly. Consumption collapsed, with card transactions down by around a quarter compared with pre-crisis levels, and business has declined by 80% to 100% in tourism and cultural activities. Layoffs have jumped and the number of bankruptcies has soared. The economic sentiment index has plummeted to the low level of the global financial crisis, and consumer confidence has fallen to its weakest level since the survey began in 1995.

Finland: Demand, output and prices (single-hit scenario)

Finland: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices EUR billion	Percentage changes, volume (2010 prices)				
GDP at market prices	217.5	3.1	1.6	0.9	-7.9	3.7
Private consumption	118.2	1.0	1.8	1.0	-7.8	4.9
Government consumption	51.5	-0.2	2.1	0.9	4.9	-1.6
Gross fixed capital formation	49.4	4.0	3.7	-0.8	-12.0	2.8
Final domestic demand	219.1	1.4	2.3	0.5	-5.8	2.7
Stockbuilding[1,2]	1.2	0.1	0.5	-0.8	1.0	0.0
Total domestic demand	220.3	1.6	2.9	-0.2	-4.7	2.7
Exports of goods and services	75.7	8.8	1.7	7.2	-12.8	6.2
Imports of goods and services	78.5	4.1	5.5	2.2	-6.6	3.7
Net exports[1]	- 2.8	1.6	-1.4	1.9	-2.5	0.9
Memorandum items						
GDP deflator	_	0.7	1.8	1.8	0.9	1.1
Harmonised index of consumer prices	_	0.8	1.2	1.1	0.8	0.8
Harmonised index of core inflation[3]	_	0.6	0.3	0.7	0.8	0.8
Unemployment rate (% of labour force)	_	8.6	7.4	6.7	8.7	8.5
General government financial balance (% of GDP)	_	-0.7	-0.9	-1.1	-7.6	-5.4
General government gross debt (% of GDP)	_	73.8	72.7	73.0	73.6	81.7
General government debt, Maastricht definition (% of GDP)	_	61.3	59.6	59.4	71.3	72.3
Current account balance (% of GDP)	_	-0.8	-1.6	-0.8	-3.1	-2.1

1. Contributions to changes in real GDP, actual amount in the first column.
2. Including statistical discrepancy.
3. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137770

There is substantial policy support to businesses and workers

To help businesses and individuals cope with the crisis, the government launched a series of support packages totalling around EUR 18.6 billion (7.8% of GDP), of which EUR 3.8 billion (1.7% of GDP) increase the budget deficit in 2020; a further package amounting to EUR 5.5 billion presented to Parliament on 5 June has not been included in the OECD projections. Key tax and spending measures include grants for businesses, some expanded unemployment insurance, and social benefits to support households. Measures with no direct impact on the budget balance include loan guarantees for firms and easing of payment terms for taxes. Credit institutions' capital adequacy requirements have also been reduced to boost their lending capacity by EUR 30 billion (12.5% of GDP). The temporary layoff scheme, which provides employers with a more flexible alternative to reduce staffing than permanent layoffs and access to unemployment benefits for temporarily laid-off employees, will also help to reduce bankruptcies and shore up household income. To enhance the effectiveness of this scheme, the notice period for temporary layoffs has been shortened.

The recession will be deep and the recovery slow

The double-hit scenario assumes that a second wave of infections occurs in autumn 2020, resulting in a renewed GDP contraction in the fourth quarter. All demand components contract sharply but consumption and exports subsequently recover somewhat faster than other demand components as some deferred consumption takes place and export markets rebound. Investment recovers slowly owing to heightened uncertainty about the outlook, low capacity utilisation, weakened balance sheets and delays in re-employing staff and organising new projects. In the single-hit scenario, in which a lockdown in late 2020

is avoided, consumption and investment recover more strongly than in the double-hit scenario as fewer temporary layoffs become permanent, fewer firms go bankrupt and firms face stronger demand for their outputs.

Measures to limit the spread of the virus and boost demand would support the recovery

The top priority for economic recovery is to limit the spread of the virus once the lockdown ends. To this end, it will be important to ensure adequate supplies of protective equipment, require people to wear masks in crowded places and undertake extensive testing and tracing to identify infected people and isolate them. Should further fiscal stimulus be needed as supply recovers, it should be targeted on the most adversely affected sectors and groups and on projects that improve environmental outcomes, such as supporting the development of a charging network for electric vehicles. Cash transfers to help low-income households, the self-employed and small businesses could also be made. To foster labour market adjustment, the public employment service should provide more online training and education to the unemployed, for instance by pairing online training and education with unemployment benefits.

France

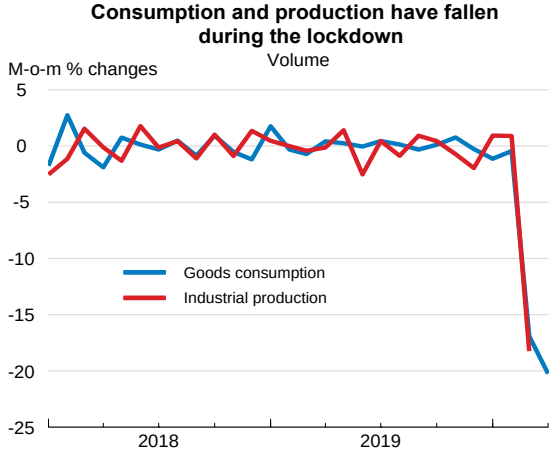
France is facing a deep recession, as consumption and investment fell sharply during the confinement period. If the pandemic is contained by the summer, real GDP will fall by about 11.4% in 2020 and rebound by 7.7% in 2021. Yet, if there is a second virus outbreak in autumn, GDP is projected to decrease by 14.1% in 2020 and to rebound by 5.2% in 2021. Policy measures such as the strengthened short-time work scheme will help contain the rise in the unemployment rate, but it is set to peak at respectively 12.4% and 13.7% by end-2020 in the two scenarios. Despite government support, investment and consumption will recover only progressively since high uncertainty is set to persist. The fiscal deficit will reach 10.4% and 12.0% of GDP in 2020 in the two scenarios, and the downturn will push the debt-to-GDP ratio (Maastricht definition) to 116% and 126% by end-2021.

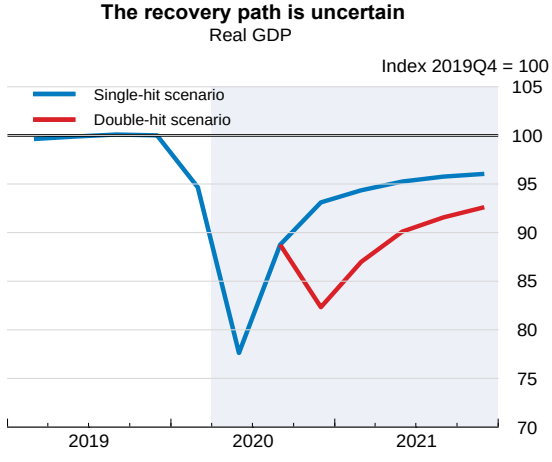
Rapid fiscal measures have reinforced the healthcare system and protected jobs and firms, including through extensive loan guarantees and tax deferrals to safeguard liquidity and solvency. To avoid a second sanitary crisis, the government should speed up the expansion of hospital and testing capacities to limit bottleneck risks and identify infected people more rapidly. On the economic side, restoring confidence and lowering precautionary saving are key challenges. Temporarily boosting public investment, notably green investment, and measures to contain business failures would help. As the recovery commences, progressively reducing the coverage of the short-time work scheme and ensuring an efficient implementation of the lifelong learning reform would ease the reallocation of workers.

The healthcare system came under heavy strain

The COVID-19 virus started to spread rapidly at the end of February. This resulted in hospitals being rapidly overwhelmed in some regions, in part because of the relatively limited number of beds in intensive care units. Yet, a quick expansion of intensive care capacity and the transfers of some patients to less affected regions reduced local bottlenecks. The number of patients in need of intensive care is declining at the national level and the southern and western parts of France continue to experience relatively low numbers of confirmed cases.

France 1





Source: OECD Economic Outlook 107 database; and INSEE.

StatLink https://doi.org/10.1787/888934139347

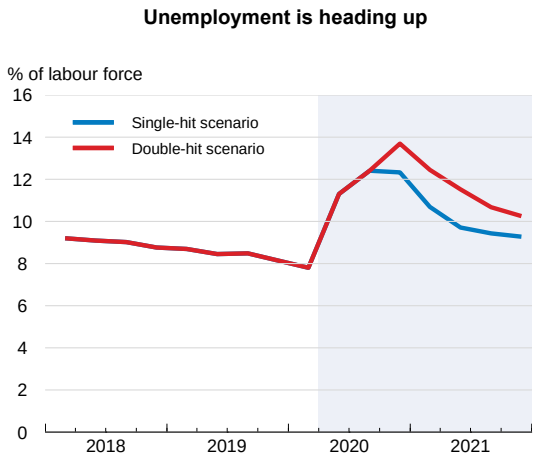
France: Demand, output and prices (double-hit scenario)

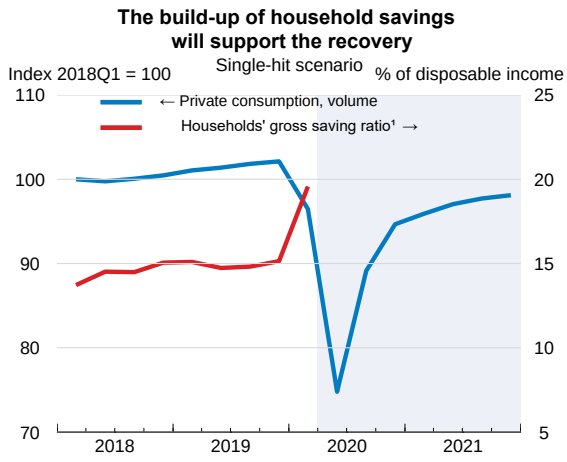
France: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices EUR billion	Percentage changes, volume (2014 prices)				
GDP at market prices	2 232.4	2.4	1.8	1.5	-14.1	5.2
Private consumption	1 211.0	1.7	0.8	1.5	-16.2	7.1
Government consumption	530.1	1.4	0.9	1.7	0.2	2.4
Gross fixed capital formation	486.8	5.0	3.2	4.3	-24.6	7.8
Final domestic demand	2 227.9	2.3	1.4	2.2	-14.4	6.0
Stockbuilding[1]	18.4	0.2	0.0	-0.4	0.0	0.0
Total domestic demand	2 246.3	2.5	1.4	1.8	-14.3	5.9
Exports of goods and services	675.1	4.6	4.6	1.8	-15.3	9.9
Imports of goods and services	689.0	4.7	3.1	2.6	-15.9	12.2
Net exports[1]	- 13.9	-0.1	0.4	-0.3	0.4	-0.7
Memorandum items						
GDP deflator	_	0.5	1.0	1.2	1.6	0.3
Harmonised index of consumer prices	_	1.2	2.1	1.3	0.4	0.2
Harmonised index of core inflation[2]	_	0.5	0.9	0.6	0.5	0.2
Unemployment rate[3] (% of labour force)	_	9.4	9.0	8.4	11.3	11.2
General government financial balance (% of GDP)	_	-2.9	-2.3	-3.0	-12.0	-8.2
General government gross debt (% of GDP)	_	123.2	121.6	124.2	148.3	151.7
General government debt, Maastricht definition (% of GDP)	_	98.3	98.0	98.1	122.2	125.5
Current account balance (% of GDP)	_	-0.7	-0.6	-0.7	0.7	0.0

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
3. National unemployment rate, includes overseas departments.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137789

France 2





1. National definition.
Source: OECD Economic Outlook 107 database; and INSEE.

StatLink https://doi.org/10.1787/888934139366

France: Demand, output and prices (single-hit scenario)

France: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices EUR billion	Percentage changes, volume (2014 prices)				
GDP at market prices	2 232.4	2.4	1.8	1.5	-11.4	7.7
Private consumption	1 211.0	1.7	0.8	1.5	-12.6	9.5
Government consumption	530.1	1.4	0.9	1.7	0.1	1.6
Gross fixed capital formation	486.8	5.0	3.2	4.3	-20.3	12.2
Final domestic demand	2 227.9	2.3	1.4	2.2	-11.5	8.0
Stockbuilding[1]	18.4	0.2	0.0	-0.4	0.0	0.0
Total domestic demand	2 246.3	2.5	1.4	1.8	-11.5	7.9
Exports of goods and services	675.1	4.6	4.6	1.8	-12.7	8.3
Imports of goods and services	689.0	4.7	3.1	2.6	-12.9	9.1
Net exports[1]	- 13.9	-0.1	0.4	-0.3	0.2	-0.3
Memorandum items						
GDP deflator	_	0.5	1.0	1.2	1.7	0.6
Harmonised index of consumer prices	_	1.2	2.1	1.3	0.4	0.5
Harmonised index of core inflation[2]	_	0.5	0.9	0.6	0.5	0.5
Unemployment rate[3] (% of labour force)	_	9.4	9.0	8.4	11.0	9.8
General government financial balance (% of GDP)	_	-2.9	-2.3	-3.0	-10.4	-5.5
General government gross debt (% of GDP)	_	123.2	121.6	124.2	144.1	142.2
General government debt, Maastricht definition (% of GDP)	_	98.3	98.0	98.1	117.9	116.0
Current account balance (% of GDP)	_	-0.7	-0.6	-0.7	0.5	0.1

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
3. National unemployment rate, includes overseas departments.

Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137808

With the healthcare system under severe strains, the authorities had to resort, like in most European economies, to strict national containment measures from mid-March. They imposed the closure of non-essential shops and entertainment facilities and banned large gatherings. Day-care, schools and universities closed and a ban of all non-essential outings and long-distance travel was introduced. Reduced pressures on the healthcare system allowed a gradual easing of these restrictions after 11 May, although some social and economic restrictions remain in place. As the authorities are gradually managing to increase the supply of masks and testing capacities, initially in insufficient supply, they are moving towards mass testing to isolate infected people quickly.

Policy responses have been rapid and substantial

The authorities have taken many measures to head off macroeconomic destabilisation and to support households and businesses negatively affected by the outbreak and economic restrictions. Discretionary budgetary measures will reach about 1.9% of GDP in 2020 under the single-hit scenario and are estimated to reach about 2.9% of GDP in event of a second virus outbreak (double-hit scenario). The high take-up of the short-time work scheme, with firms claiming coverage for 13 million workers in early June, accounts for a significant part of this discretionary fiscal support. This is welcome as it reduces the risk of employees losing attachment to their employers and the labour market. A solidarity fund, worth EUR 7 billion, is also in place to support small companies, including the self-employed. These measures help support the income of workers. The sharp increase in households' saving rate will help sustain the recovery by allowing an increase in consumption once confidence and consumption opportunities return.

The European Central Bank has committed to “do everything necessary within its mandate” to preserve the euro area economy. Accommodative monetary policy and expanded asset purchases will support aggregate demand. On the macro-prudential side, the Banque de France removed the counter-cyclical capital buffer to facilitate bank lending. The French policy package also aims to alleviate corporate costs and to keep corporate credit flowing (via public guarantees covering loans up to EUR 315 billion), in order to avoid redundancies and to facilitate a more rapid resumption of production. The deferrals of monthly payments of social contributions and taxes, and the advance payments of tax credits have increased to up to EUR 49.5 billion. The smallest firms will benefit from a 3-month tax holiday (if they had to close) and be able to delay paying rents and utility bills. In the tourism sector, prolonged employment and liquidity measures will also support small firms. In addition, EUR 20 billion have been earmarked for equity injections into companies facing significant temporary difficulties, notably in the transport and automotive sectors, while increased incentives for electric vehicle purchases aim to boost consumption.

Economic activity has collapsed

The strict national containment measures brought the economy to a sudden stop. Plunging consumption and investment, as well as a rapid export contraction, led to a sharp drop in economic activity in the first quarter. Indicators of business and household confidence fell further in April and economic activity is expected to have decreased during the lockdown by around 33% compared to a normal period according to the French Statistical Institute (INSEE), which is below the OECD benchmark estimate of -26%. The lockdown has badly hit the construction, tourism, retail and accommodation sectors. Activity losses are also particularly high for transport manufacturers and refineries. Despite the high take-up of the strengthened short-time work scheme, the unemployment rate has increased rapidly, with new hires dropping in March and the increase in registrations to the unemployment agency reaching a record high. Younger and low-skilled workers, as well as those on short-term contracts (who could not benefit from the short-time work scheme), have been disproportionately affected.

The recovery path is uncertain

The single-hit scenario is based on eight weeks of stringent containment measures from mid-March to 11 May, while restrictions on air transport, accommodation and food services, as well as on the entertainment industry will remain in place over the summer. Under these assumptions, economic activity is projected to recover only partially from an 11.4% decline in 2020 to an expansion of output by 7.7% in 2021. A second outbreak in the autumn would stifle the recovery. If the additional containment measures were to have half the initial effect on economic activity compared to the first lockdown, output in 2020 could decline by 14.1% and the unemployment rate increase to 13.7% at the end of 2020. After an initial rebound driven by the construction and manufacturing sectors and postponed consumption, growth will remain fragile. High saving and low energy prices will support consumption growth, but elevated unemployment will dent household confidence. Business investment will remain depressed, reflecting reduced profit margins and high uncertainty.

Some industries, such as passenger transport, tourism and cultural activities, will likely bear enduring scars from the crisis. Not only are they likely to reopen after other businesses but they will face reduced demand until a vaccine or an effective treatment is available. Furthermore, businesses have built up sizeable debt. As a result, some businesses will face liquidity and solvency concerns, which could precipitate large-scale firm liquidations and dent economic prospects. A slower recovery of the world economy, particularly the main trading partners of France in the euro area, would also delay the recovery. On the upside, high pent-up demand could foster a faster-than-projected rebound in consumption. The additional measures to be

announced with the updated budget law could increase the deficit by about 1% of GDP in 2020 and support the recovery further.

Strengthening the recovery

The government has committed to spend what is necessary to deal with the health and economic crisis. The priority is to improve coordination within the healthcare sector and to boost healthcare resources to ensure that the strategy of mass testing and isolation is successful. Restoring confidence and lowering household precautionary saving in the aftermath of this crisis are also key challenges. Temporarily boosting public investment in healthcare and innovation could support aggregate demand and kick start the recovery. A specific focus on green investment will also be necessary to reduce urban air pollution that remains well beyond European commitments, as it makes individuals more vulnerable to acute respiratory illnesses and to this sanitary crisis. As elsewhere, the crisis legacy is likely to include some lasting shifts in the structure of economic activity. An efficient reallocation of resources will require a reduction in the use of the short-time work scheme by progressively increasing private cost sharing and to ensure a broad access to lifelong learning for low-skilled and long-term unemployed workers, as well as an efficient implementation of quality standards for these programmes. Targeted tax cuts, such as the suspension of some distortive production taxes, or tax credits towards capital-intensive and more affected firms could help to alleviate cascading business failures, notably among smaller firms.

Germany

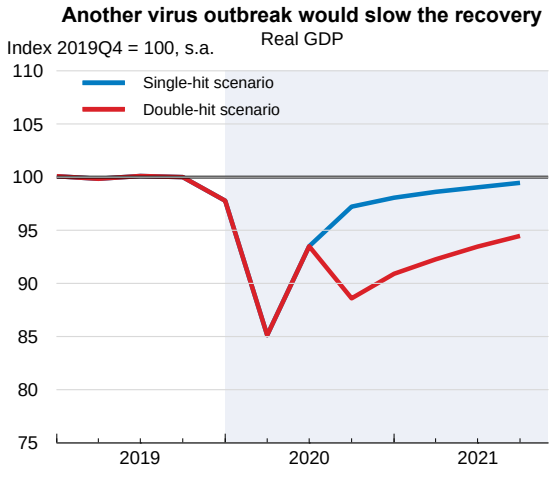
The German economy is facing a deep recession, with a decrease in GDP by 8.8% in 2020 if a second COVID-19 outbreak requires further containment measures or prolongs uncertainty. The fall in GDP is estimated at 6.6% if the virus subsides by the summer. Containment measures have been shorter and less stringent than in other major European economies, thanks to widespread testing and high health sector capacity. This has moderated the economic downturn, but uncertainty and reduced demand are still having a significant effect on business investment and exports in key sectors, in particular manufacturing. A second outbreak would undermine the benefits of an early and well-managed reopening. Increased uncertainty would underpin greater precautionary saving by consumers and weigh on investment at home and abroad, with negative consequences for Germany's capital goods exports.

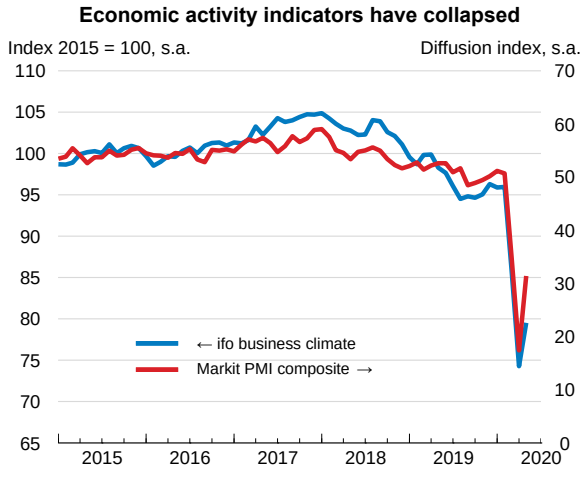
Strong fiscal measures have reinforced health system capacity while protecting jobs and firms, including through guarantees and equity injections to safeguard liquidity and solvency. The scale of the challenge some firms are facing means that speedy resolution of insolvency will also be important and the high costs of firm failure should be reduced as planned. A short-time work scheme is protecting existing employment relationships for those with jobs. The cost of future lockdowns could be reduced by accelerating the digital transformation by enhancing digital government services and supporting infrastructure deployment, adoption of digital tools by small firms, and skills development.

The health system has proved resilient

Germany has confirmed a large number of COVID-19 cases, principally in the most populous western states. Diagnostic testing capacity was developed and employed quickly. Entering the pandemic, Germany had the highest number of intensive care beds among 22 OECD countries for which recent data are available, with the vast majority of those beds having ventilators. Widespread testing, high health sector capacity and the relatively young average age of those contracting the virus contributed to Germany recording one of the lowest death rates in Europe.

Germany 1





Source: OECD Economic Outlook 107 database; ifo business surveys; Markit.

StatLink https://doi.org/10.1787/888934139385

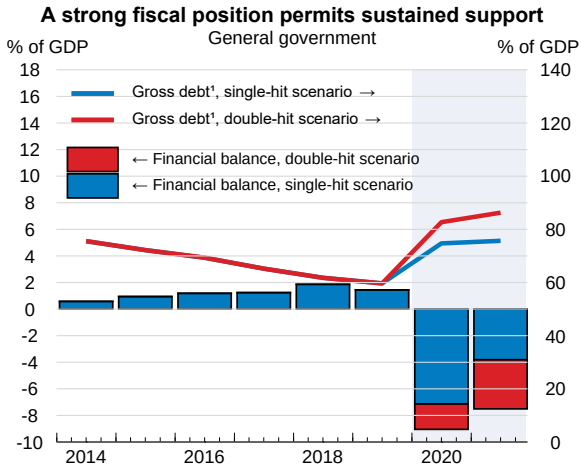
Germany: Demand, output and prices (double-hit scenario)

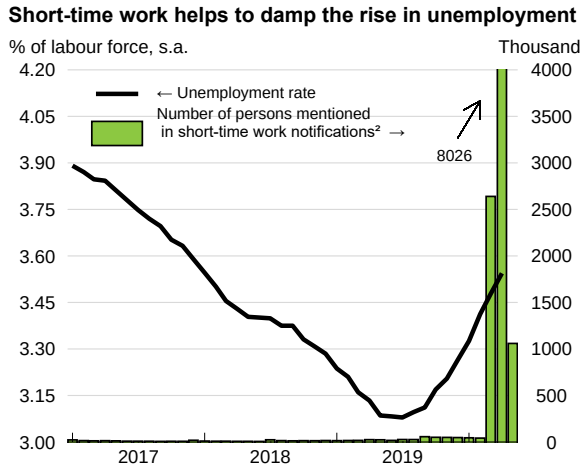
Germany: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	3 128.4	2.8	1.5	0.6	-8.8	1.7
Private consumption	1 646.5	1.6	1.2	1.7	-8.1	4.1
Government consumption	620.0	2.4	1.4	2.7	4.5	1.8
Gross fixed capital formation	633.7	3.1	3.5	2.6	-11.6	-0.1
Final domestic demand	2 900.2	2.1	1.8	2.1	-6.2	2.6
Stockbuilding[1]	- 0.2	0.4	0.3	-0.8	0.1	0.0
Total domestic demand	2 900.0	2.6	2.1	1.2	-6.0	2.6
Exports of goods and services	1 436.3	5.5	2.3	1.0	-17.1	1.4
Imports of goods and services	1 207.9	5.7	3.7	2.5	-12.1	3.8
Net exports[1]	228.4	0.4	-0.4	-0.6	-3.1	-0.9
Memorandum items						
GDP without working day adjustments	3134.1	2.5	1.5	0.6	-8.4	1.7
GDP deflator	_	1.1	1.5	2.1	1.9	0.5
Harmonised index of consumer prices	_	1.7	1.9	1.4	0.8	0.4
Harmonised index of core inflation[2]	_	1.3	1.3	1.3	0.8	0.4
Unemployment rate (% of labour force)	_	3.8	3.4	3.2	4.6	5.3
General government financial balance (% of GDP)	_	1.2	1.9	1.4	-9.1	-7.5
General government gross debt (% of GDP)	_	74.1	70.3	69.3	92.3	95.9
General government debt, Maastricht definition (% of GDP)	_	65.2	61.8	59.7	82.7	86.3
Current account balance (% of GDP)	_	7.8	7.5	7.3	5.6	4.7

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137827

Germany 2





1. Maastricht definition.
2. Monthly flow of workers mentioned in new notifications. The number does not represent realised workers in short-time work.
Source: OECD Economic Outlook 107 database; Federal Statistical Office; Federal Employment Agency.

StatLink https://doi.org/10.1787/888934139404

Germany: Demand, output and prices (single-hit scenario)

Germany: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	3 128.4	2.8	1.5	0.6	-6.6	5.8
Private consumption	1 646.5	1.6	1.2	1.7	-6.0	7.6
Government consumption	620.0	2.4	1.4	2.7	4.0	2.2
Gross fixed capital formation	633.7	3.1	3.5	2.6	-9.0	4.6
Final domestic demand	2 900.2	2.1	1.8	2.1	-4.5	5.7
Stockbuilding[1]	- 0.2	0.4	0.3	-0.8	0.1	0.0
Total domestic demand	2 900.0	2.6	2.1	1.2	-4.4	5.7
Exports of goods and services	1 436.3	5.5	2.3	1.0	-13.6	8.5
Imports of goods and services	1 207.9	5.7	3.7	2.5	-9.6	8.6
Net exports[1]	228.4	0.4	-0.4	-0.6	-2.5	0.3
Memorandum items						
GDP without working day adjustments	3134.1	2.5	1.5	0.6	-6.2	5.8
GDP deflator	_	1.1	1.5	2.1	1.9	0.8
Harmonised index of consumer prices	_	1.7	1.9	1.4	0.8	0.7
Harmonised index of core inflation[2]	_	1.3	1.3	1.3	0.8	0.7
Unemployment rate (% of labour force)	_	3.8	3.4	3.2	4.5	4.3
General government financial balance (% of GDP)	_	1.2	1.9	1.4	-7.1	-3.8
General government gross debt (% of GDP)	_	74.1	70.3	69.3	84.3	85.3
General government debt, Maastricht definition (% of GDP)	_	65.2	61.8	59.7	74.7	75.7
Current account balance (% of GDP)	_	7.8	7.5	7.3	6.1	6.1

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137846

A contact ban was imposed between 22 March and 5 June, forbidding public meetings of more than two non-household members, with some easing having started on 6 May. Restaurants and most personal services were required to close, as were non-essential stores, leisure and cultural facilities. Border controls were reintroduced with restrictions on movements of people and quarantine requirements, although special arrangements have been made for commuters and seasonal agricultural workers. A gradual reopening of stores began from 20 April, while state-level decisions have regulated the reopening of restaurants and hotels since mid-May. Schools are opening again gradually after closures since mid-March. Large public gatherings are prohibited until 31 August.

Economic activity has contracted sharply

Indicators of business confidence and activity fell to record lows in April, though the decline in Germany was smaller than in other major European countries. Mobility and construction activity remained higher than in other large European countries. Industrial production in April 2020 was down 25% on the same month a year earlier. Automotive manufacturing has been badly hit, with major car producers shutting operations for six weeks or longer and facing weak and uncertain demand. The overall output loss in early April is estimated at just under 20%, based on industry structure and the stringency of the lockdown. Real-time indicators show economic activity recovering but remaining below normal in May as containment measures were eased. For example, truck mileage was consistent with industrial production running at about 15% below normal in mid-May.

Registered unemployment increased by just over 1% of the labour force between March and May, cushioned by the government-supported short-time work scheme. Since the beginning of March, over

750 000 firms have submitted a notification to potentially use short-time work with the largest increase occurring in April. The cumulative number of workers mentioned in those notifications exceeds 10 million, which is an upper bound for actual take-up. The labour agency estimates that around 6 million workers might have been in short-time work in April, well above its peak of 1.4 million during the financial crisis.

Government support is protecting jobs

The clause for exceptional circumstances in the public debt break was triggered on 25 March to allow debt financing of a supplementary budget of EUR 156 billion (4.5% of GDP) to tackle the health crisis and dampen the initial economic consequences. Early support primarily focused on protective gear and health measures, cash payments to the self-employed and small businesses, expanded social benefits, guarantee provisions, reduced tax revenues and tax deferrals. Further off-balance liquidity support has been provided to firms, such as credit programmes through the national development bank (KfW), credit guarantees and equity injections. An additional package for 2020 and 2021 of EUR 130 billion (3.8% of GDP) announced in early June is aimed at stimulating demand during the recovery. Some measures target consumption, such as a family bonus and the temporary reduction of value added tax rates, while others seek to increase investment in public transport, electric mobility, digital infrastructure, education, and research and development. In addition to spending by the federal government, the labour agency covers spending on short-time work using built-up reserves. The European Central Bank has committed to “do everything necessary within its mandate” to support the euro area economy. Accommodative monetary policy and expanded asset purchases will support aggregate demand, although there is limited room to ease rates from pre-crisis settings.

Discretionary spending of just under 4% of GDP in 2020 under the single-hit scenario will support the economic recovery. This includes all of the spending planned as part of the initial supplementary budget, but not all measures announced in the recovery package, as some require further parliamentary approval and others may take time to be fully implemented. Further fiscal support proportional to the economic impact is incorporated in the double-hit scenario. The number of short-time workers is estimated to peak at around 5 to 6 million in the second quarter of 2020 and decline gradually thereafter, unless there is a significant further outbreak in which case uptake increases again in the fourth quarter. Associated costs for 2020 are over EUR 20 billion in the single-hit scenario and proportionally higher in the double-hit scenario. Extensive use of short-time work will damp the increase in unemployment and facilitate a more rapid resumption of production by maintaining employer-employee relationships.

A second outbreak would slow the recovery substantially

The single-hit scenario is based on 6 weeks of strong containment measures from mid-March to the start of May, with delayed opening of sectors where distancing remains a concern. In the double-hit scenario, containment measures are assumed to restart in the autumn, lasting for two months at half the scale of the first containment, again with delayed reopening of the most affected sectors. Under either scenario, economic output is likely to see its biggest decline of the post-war period in 2020. Private consumption will contract far more than during previous downturns, recovering only gradually as containment measures end. Imports will therefore fall considerably, but net trade still makes a negative contribution to growth due to the larger downturns in other European countries and the effect of weak demand and shutdowns on automotive manufacturing exports. Though strong construction activity has supported business and housing investment in the early stages of the crisis, prolonged weak domestic and external demand will cause business investment to fall rapidly and recover only slowly, particularly under the double-hit scenario. The labour market is unlikely to recover fully by the end of 2021 and spare capacity will help to keep inflation low in the near term.

Financial amplification would see a more protracted recession and is a particular risk given the low profitability and high leverage of the German banking sector, though government intervention could mitigate the economic consequences. Supply chain issues holding up production in automotive manufacturing will become a greater risk if there are further outbreaks that threaten the financial viability of suppliers. Equally, supply chain restructuring to reduce vulnerability could drag on long-term productivity growth, as could a sustained decrease in entrepreneurship if the risks and costs of firm failure are perceived to be too high. A faster rebound is possible as containment measures are withdrawn, particularly if parliamentary approval and resolution of construction capacity constraints allows full disbursement of the government's recovery package.

Policies can help restart the economy

The government has been transparent in its commitment to spend what is necessary to deal with the crisis while ensuring that temporary schemes such as the expansion of short-time work and liquidity support have clear end dates, which will help the transition to more sustainable budget positions during the recovery. The crisis could potentially trigger substantial shifts in labour demand across sectors and regions, undermining the benefits of keeping employees in their current jobs through short-time work. If disruption persists, more active labour market policy measures are likely to be warranted to support new entry into employment, retraining and reallocation of workers. Preparations should be made to recapitalise banks in a transparent manner, if needed, subject to adequate remuneration for risks taken, clear conditions (for example around dividends) and timelines. The pandemic heightens the importance of good digital infrastructure, skills and government services. Administrative barriers to faster broadband rollout should be reduced, foundational and digital skills prioritised (including ICT training for teachers) and progress towards digital government services accelerated with a priority on high-impact services. The COVID-19 crisis should not be allowed to derail substantial recent progress on climate change policy, such as the introduction of carbon pricing in transport and buildings. Instead, policies to support the recovery should be aligned with Germany's long-term decarbonisation ambitions. Steps to use previous budget surpluses to fund infrastructure spending are welcome and should be supported by measures to increase financial transfers to municipalities and bolster local planning capacity through intergovernmental co-operation and training.

Greece

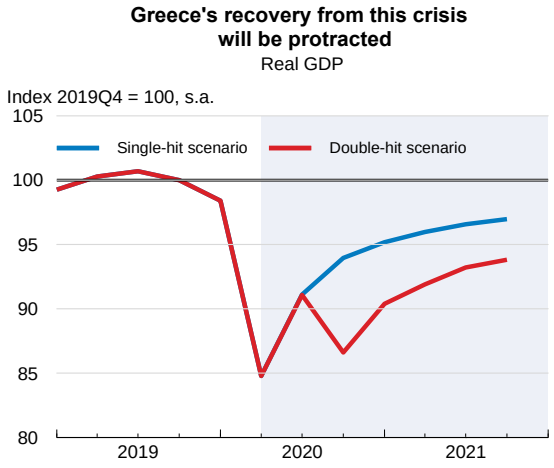
The COVID-19 pandemic and containment measures are projected to reduce GDP by 8% in 2020 if there are no further virus outbreaks (the single-hit scenario), before it recovers by 4.5% in 2021. In there is a second virus outbreak later in the year (the double-hit scenario), the fall in GDP in 2020 will amount to 9.8%. The losses in output, employment and the budgetary costs from this crisis are projected to be less severe than the crises over 2009-16. While Greece has contained the pandemic effectively, the negative impact on tourism, investment and public finances is a setback to Greece's longer-term recovery.

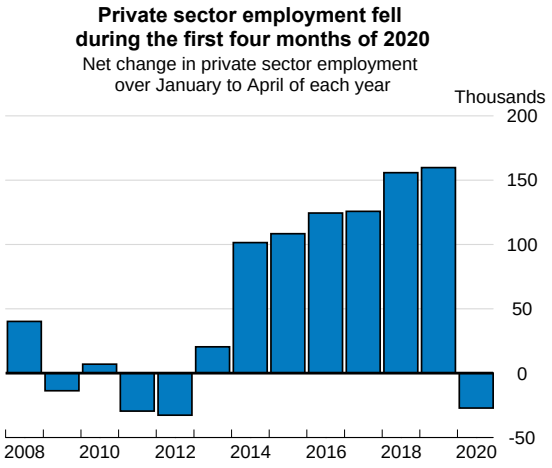
Policy is supporting employment, incomes and firms' liquidity through 2020 and should continue to do so as needed. The ECB's policies and decision to include Greek government securities in its asset purchase programmes have helped to manage financing costs for the government and banks. Likely weakness in tourism demand underscores the need to revive investment and enable new sectors to grow. Restoring banks' health so they can finance investment is essential. Improving the effectiveness of public administration and the justice system, simplifying regulations, upgrading adult skills, and investing in infrastructure, in particular green infrastructure, would help to spur a sustainable recovery.

Greece has been very effective in limiting infections

Greece has successfully limited the number of infections and avoided overwhelming its health system. The authorities identified the first infections on 26 February and the number of patients in intensive care peaked on 5 April. Greece managed to contain the outbreak largely to the Athens area, which has the strongest health system capacity, and contained outbreaks in refugee camps. Greece's health spending was cut during the economic crisis, but had stabilised in recent years and has been boosted as part of the crisis response.

Greece





Source: OECD Economic Outlook 107 database and ERGANI database of private sector employees.

StatLink https://doi.org/10.1787/888934139423

Greece: Demand, output and prices (double-hit scenario)

Greece: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices EUR billion	Percentage changes, volume (2010 prices)				
GDP at market prices	176.5	1.5	1.9	1.9	-9.8	2.3
Private consumption	122.1	0.9	1.1	0.8	-8.4	3.1
Government consumption	35.4	-0.4	-2.5	2.2	1.9	-0.4
Gross fixed capital formation	21.3	9.1	-12.2	4.5	-17.3	11.0
Final domestic demand	178.8	1.6	-1.1	1.4	-7.3	3.2
Stockbuilding[1,2]	- 1.0	0.0	1.8	-0.4	-1.7	-0.3
Total domestic demand	177.7	2.2	0.7	1.0	-8.1	3.0
Exports of goods and services	53.1	6.8	8.7	4.9	-13.6	-1.3
Imports of goods and services	54.3	7.1	4.2	2.8	-10.8	0.5
Net exports[1]	- 1.3	-0.1	1.5	0.8	-1.0	-0.6
Memorandum items						
GDP deflator	_	0.6	0.5	-0.4	-1.0	0.0
Harmonised index of consumer prices	_	1.1	0.8	0.5	0.1	0.0
Harmonised index of core inflation[3]	_	0.3	0.3	0.8	0.4	0.2
Unemployment rate (% of labour force)	_	21.5	19.3	17.3	19.6	20.4
General government financial balance[4] (% of GDP)	_	0.7	1.0	1.5	-8.8	-6.6
General government gross debt (% of GDP)	_	191.7	195.8	200.6	233.3	228.8
General government debt, Maastricht definition (% of GDP)	_	176.2	181.2	176.5	209.3	204.7
Current account balance[5] (% of GDP)	_	-1.9	-2.8	-1.4	-0.6	-0.4

1. Contributions to changes in real GDP, actual amount in the first column.
2. Including statistical discrepancy.
3. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
4. National Accounts basis. Data also include Eurosystem profits on Greek government bonds remitted back to Greece, and the estimated government support to financial institutions and privatisation proceeds.
5. On settlement basis.

Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137865

The authorities set up a dedicated body in early February 2020 to manage the response to the outbreak, including doubling the number of intensive care beds and recruiting over 4300 additional health workers. They cancelled large public events from late February, placed restrictions on international arrivals, and introduced confinement measures from 10 March, starting by closing schools. From 23 March, they tightened confinement measures, making movement restrictions stricter and closed all but essential shops. As the number of active cases declined, restrictions were lifted progressively from 4 May, first by allowing some shops to reopen and permitting freer movement around residences, and subsequently reopening other shops, schools, and cafes and restaurants through May. Hotels started to reopen from late May, and the reopening of seasonal tourist facilities and the easing of some restrictions on international arrivals is planned from 15 June, while health developments will continue to be monitored.

Greece: Demand, output and prices (single-hit scenario)

Greece: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices EUR billion	Percentage changes, volume (2010 prices)				
GDP at market prices	176.5	1.5	1.9	1.9	-8.0	4.5
Private consumption	122.1	0.9	1.1	0.8	-6.4	5.5
Government consumption	35.4	-0.4	-2.5	2.2	1.7	0.6
Gross fixed capital formation	21.3	9.1	-12.2	4.5	-14.3	7.8
Final domestic demand	178.8	1.6	-1.1	1.4	-5.7	4.7
Stockbuilding[1,2]	- 1.0	0.0	1.8	-0.4	-1.3	-0.1
Total domestic demand	177.7	2.2	0.7	1.0	-6.3	4.8
Exports of goods and services	53.1	6.8	8.7	4.9	-11.1	8.7
Imports of goods and services	54.3	7.1	4.2	2.8	-8.2	9.7
Net exports[1]	- 1.3	-0.1	1.5	0.8	-1.1	-0.3
Memorandum items						
GDP deflator	_	0.6	0.5	-0.4	-1.3	0.1
Harmonised index of consumer prices	_	1.1	0.8	0.5	0.2	0.4
Harmonised index of core inflation[3]	_	0.3	0.3	0.8	0.4	0.4
Unemployment rate (% of labour force)	_	21.5	19.3	17.3	19.4	19.8
General government financial balance[4] (% of GDP)	_	0.7	1.0	1.5	-7.7	-4.9
General government gross debt (% of GDP)	_	191.7	195.8	200.6	220.9	214.8
General government debt, Maastricht definition (% of GDP)	_	176.2	181.2	176.5	196.9	190.7
Current account balance[5] (% of GDP)	_	-1.9	-2.8	-1.4	-0.6	-0.6

1. Contributions to changes in real GDP, actual amount in the first column.
2. Including statistical discrepancy.
3. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
4. National Accounts basis. Data also include Eurosystem profits on Greek government bonds remitted back to Greece, and the estimated government support to financial institutions and privatisation proceeds.
5. On settlement basis.

Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137884

Tourist and consumer services have been affected strongly

GDP fell by 1.6% in the first quarter of 2020. Containment measures were strictest from mid-March to early May, affecting firms generating 20% of Greece's value-added. The shutdown orders applied to over 80% of accommodation, catering, education and consumer service businesses. Flight arrivals and traffic in the main urban areas fell sharply in March and April, before gradually recovering from early May. Electricity demand was about 10% below normal levels in April. Private sector employment fell by 35 thousand in March and April 2020 (a drop of 1.8%). Once the extent of the crisis became clear, the Athens stock index traded one-third below its February peak. After falling to historical lows in February, government bond yields spiked in March until the ECB announced its main policy responses and that it would include Greek government securities in its security purchases, and yields have since traded below levels of mid–2019. The government sold EUR 2 billion of 7-year bonds at a 2.0% yield in mid-April.

The government is supporting businesses and workers affected by the shutdown

The government has announced measures to support household incomes and firms' liquidity, totalling EUR 11.4 billion for 2020 (6.1% of 2019 GDP). Measures include a EUR 800 allowance to workers in firms with operations suspended and to the self-employed suffering large income losses during the shutdown, and expanded unemployment benefits. For affected firms, tax and contribution payments were suspended, and credit and guarantees provided for up to EUR 7.9 billion of loans. Policy support also included cuts to selected VAT rates. The government is allowing firms to reduce workers' hours, and is facilitating remote and flexible work arrangements. It is implementing a programme to support the tourism sector over the 2020 season and into 2021.

Lifting containment restrictions has allowed activity to resume, but services demand will remain weak

The government started relaxing activity and movement restrictions in early May, but ongoing restrictions, a decrease in the number of international visitors and heightened uncertainty are expected to depress consumer demand and tourism into the summer season. Greece has announced a clear timetable to restart tourism, which may prompt an upswing in bookings for later in the season. Still, in the double-hit scenario, weakened incomes and confidence globally are projected to depress Greece's tourism arrivals through the 2021 season. The crisis is hampering loan securitisation activity globally and has delayed steps to resolve banks' non-performing loan burdens and balance sheet pressures, which will continue to constrain growth in bank lending, even as ECB measures keep borrowing costs low. The sale of state-owned enterprises and steps to attract foreign direct investment are likely to be delayed. In the double-hit scenario, these delays will lengthen. Lower activity and income will reduce tax and social contribution payments, shifting the budget from a substantial primary surplus to deficit. Along with the drop in nominal GDP, this will raise public debt ratios. These effects will be amplified and extend into 2021 in the double-hit scenario.

Beyond the short-term risks of the pandemic crisis, the main challenge Greece faces is returning to a path of sustained recovery. The tourism sector, which led Greece's gains in employment and exports in recent years, is vulnerable to the COVID-19 crisis. While the gradual resumption of travel may support late-season tourism activity in the single-hit scenario, the losses are likely to be protracted in the double-hit scenario. This may translate into renewed insolvencies and add to banks' non-performing loans, delaying progress in restoring finance for investment and undermining the emergence of new activities. Reduced fiscal revenues and measures to launch the recovery will lead to higher public debt, as in many other countries. Continuing the government's strategy of issuing debt with longer maturities and benefiting from low interest rates following the ECB's interventions can limit the risks of rising annual gross financing needs.

Reviving investment and expanding access to opportunities would help Greece resume its recovery

The COVID-19 crisis is an external shock that sets back Greece's recovery from its earlier crises, and delays some of the government's reform efforts while accelerating others. It raises the importance of continuing to pursue a multi-year programme of transformation. The government's COVID-19 responses announced to date will support incomes and firms into 2021. It will need further measures in the double-hit scenario to relaunch the recovery as the crisis passes. Strengthening the guaranteed minimum income would improve the social safety net, especially in event of another virus outbreak with associated containment measures. Support for the tourism sector can help it bridge the 2020 season; however, this crisis has weakened the sector's medium-term prospects and measures should help businesses and their workers to upgrade their activities and skills, and to shift to sectors that promise better opportunities. The government remains committed to the "Hercules" scheme to accelerate the disposal of banks' non-performing loans and to address banks' large deferred tax credits. The risk of rising non-performing loans underlines the need to implement the scheme swiftly to restore banks' health and unlock financing for investment. Scaling up adult education and strengthening active labour market policies would better equip workers for new opportunities. Unifying the insolvency regime, and accelerating the enforcement of collateral and the speed of the justice system would help Greece's economy adapt to this crisis. Cutting the burdens of the public administration and regulation, as the government is pursuing by its digital agenda, would help new firms emerge. With the support of the new European recovery fund, investing in infrastructure and shifting to a low-carbon economy would support growth.

Hungary

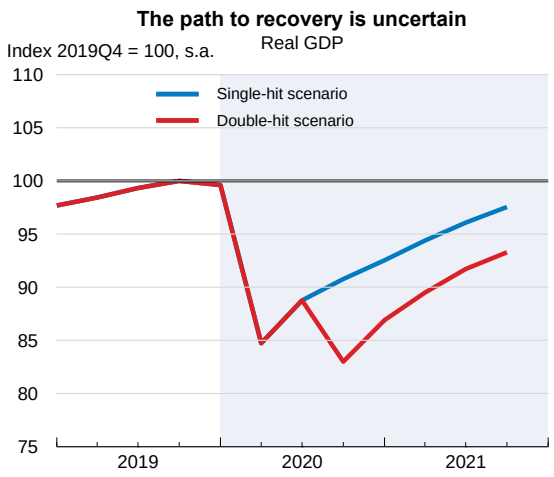
The COVID-19 pandemic is causing severe economic disruptions due to closures in manufacturing and large parts of the service sector, and an abrupt decline in international trade. Economic activity is projected to fall by 10% in 2020 if there is another virus outbreak later in the year (the double-hit scenario) but should recover in 2021, bolstered by the release of pent-up demand. In the single-hit scenario, where there are no further outbreaks, GDP is expected to fall by 8% and the recovery would be faster.

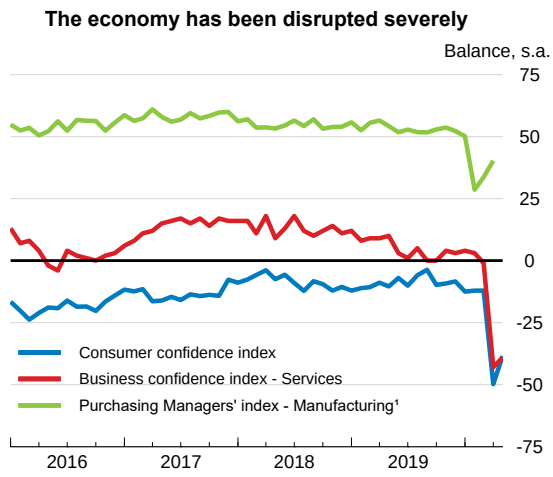
Policy should gradually shift from temporary measures to preserve existing businesses towards demand support and enabling the effective re-allocation of resources once the recovery sets in. In addition to the government's active labour market policies, an extension of the duration of unemployment benefits is a priority to support the unemployed during their transition to new jobs and to bolster demand during the recovery.

The spread of COVID-19 is being contained

The COVID-19 outbreak reached Hungary relatively late, with the first cases reported only in early March. The propagation of the virus has been slow and strict measures have helped to contain the number of new cases, with fatalities now declining. The capacity of the health system has been scaled up rapidly. This helped to keep the health crisis under control.

Hungary





1. The headline PMI is a number from 0 to 100. A PMI above 50 represents an expansion when compared with the previous month. A PMI reading under 50 represents a contraction, and a reading at 50 indicates no change.
Source: OECD Economic Outlook 107 database; OECD Main Economic Indicators database; GKI; and Refinitiv.

StatLink https://doi.org/10.1787/888934139442

Hungary: Demand, output and prices (double-hit scenario)

Hungary: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices HUF billion	Percentage changes, volume (2015 prices)				
GDP at market prices	35 896.3	4.5	5.1	4.9	-10.0	1.5
Private consumption	17 876.6	4.7	4.8	5.1	-8.8	3.8
Government consumption	7 227.3	2.4	0.9	1.7	2.3	1.0
Gross fixed capital formation	7 058.4	18.7	17.1	15.3	-18.3	-2.6
Final domestic demand	32 162.3	7.3	6.9	7.1	-9.4	1.4
Stockbuilding[1]	593.8	-1.8	0.4	-1.3	0.3	0.0
Total domestic demand	32 756.1	5.2	7.3	5.6	-9.0	1.4
Exports of goods and services	31 284.3	6.9	4.3	6.0	-8.1	0.4
Imports of goods and services	28 144.1	8.2	6.8	6.9	-7.0	0.3
Net exports[1]	3 140.2	-0.5	-1.7	-0.4	-1.2	0.1
Memorandum items						
GDP deflator	_	3.5	4.5	4.5	2.7	2.5
Consumer price index	_	2.3	2.9	3.3	3.5	1.8
Core inflation index[2]	_	1.8	2.1	3.2	2.9	1.8
Unemployment rate (% of labour force)	_	4.1	3.7	3.4	6.9	6.2
General government financial balance (% of GDP)	_	-2.5	-2.1	-2.0	-9.9	-9.0
General government gross debt (% of GDP)	_	94.1	88.0	84.5	98.9	105.2
General government debt, Maastricht definition (% of GDP)	_	72.9	70.2	66.3	77.9	81.7
Current account balance (% of GDP)	_	2.3	0.0	-0.9	-1.3	-1.3

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137903

The government introduced restrictions in parts of the economy on 29 March to fight the virus. In consequence, large parts of the services sector remained closed in April. Moreover, a large part of manufacturing ceased or slowed production as foreign demand weakened. An emergency law that will be in place until 20 June enables the government to rule by decree to address the crisis. The government introduced measures amounting to HUF 223 billion to address the crisis and announced a HUF 663 billion Epidemic Prevention Fund to step up health care capacities. It eased restrictions on 4 May, starting with a gradual opening of non-essential retail stores, restaurants and the tourism sector.

The economy has been hard hit

Short-term indicators show that economic activity was already slowing before the shutdown. Business and consumer confidence have fallen to all-time lows in April, before picking-up in May as restrictions were eased. The number of registered jobseekers rose sharply, by 26.5%, in April compared to the same month in 2019. Yields on 10-year Hungarian government bonds were very volatile in March and April, before stabilising around 2% in May. The forint depreciated strongly against the euro at the beginning of April, in line with other Central European currencies, and has since then partly recovered. OECD benchmark sectoral estimates suggest an initial output loss of more than a quarter in April. The automotive sector accounts for nearly a third of manufacturing output and was particularly hard hit, with production ceasing as international supply chains were disrupted and demand collapsed. Automotive companies resumed their production at the end of April, albeit at lower capacity levels. The tourism and supporting sectors, which have a high share of small firms and employ around 10% of the workforce, are heavily affected, notably hotels and hospitality services.

Hungary: Demand, output and prices (single-hit scenario)

Hungary: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices HUF billion	Percentage changes, volume (2015 prices)				
GDP at market prices	35 896.3	4.5	5.1	4.9	-8.0	4.6
Private consumption	17 876.6	4.7	4.8	5.1	-6.4	5.0
Government consumption	7 227.3	2.4	0.9	1.7	2.3	1.0
Gross fixed capital formation	7 058.4	18.7	17.1	15.3	-15.8	3.8
Final domestic demand	32 162.3	7.3	6.9	7.1	-7.5	3.7
Stockbuilding[1]	593.8	-1.8	0.4	-1.3	0.3	0.0
Total domestic demand	32 756.1	5.2	7.3	5.6	-7.0	3.8
Exports of goods and services	31 284.3	6.9	4.3	6.0	-6.9	3.6
Imports of goods and services	28 144.1	8.2	6.8	6.9	-5.8	2.7
Net exports[1]	3 140.2	-0.5	-1.7	-0.4	-1.1	0.9
Memorandum items						
GDP deflator	_	3.5	4.5	4.5	2.8	2.7
Consumer price index	_	2.3	2.9	3.3	3.5	2.1
Core inflation index[2]	_	1.8	2.1	3.2	2.6	2.7
Unemployment rate (% of labour force)	_	4.1	3.7	3.4	6.3	4.9
General government financial balance (% of GDP)	_	-2.5	-2.1	-2.0	-8.8	-7.3
General government gross debt (% of GDP)	_	94.1	88.0	84.5	96.4	99.2
General government debt, Maastricht definition (% of GDP)	_	72.9	70.2	66.3	76.2	77.5
Current account balance (% of GDP)	_	2.3	0.0	-0.9	-1.2	-0.4

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137922

Policy reacted promptly to support activity

The government reacted promptly to support activity and is implementing a fiscal package of 4.4% of GDP, including wage and investment subsidies, tax deferrals, and cuts to employers' social security contributions. In addition, a 3 600 HUF billion moratorium on loan payments offers debt relief until the end of 2020. A total of HUF 2 500 billion (5.4% of GDP) in state loans and guarantees were made available to struggling businesses. The central bank launched a HUF 1 300 billion (2.7% of GDP) bond-purchasing programme. It has left policy rates unchanged at 0.9%, while expanding the monetary policy tool set by introducing a new deposit tender with an interest rate of 0.9% compared with -0.05% for overnight deposits to stem the depreciation of the forint. The central bank also provides over HUF 1 500 billion (3.2% of GDP) of state loans and guarantees, including HUF 1 000 billion in the new "Funding for Growth Scheme Go". Fiscal measures to support wages of furloughed workers will curb unemployment.

Growth is set to recover but the outlook remains uncertain

In the double-hit scenario, GDP will fall by 10% in 2020. GDP growth is expected to recover to 1.5% in 2021, reflecting a projected release of pent-up demand as restrictions are eased. As international supply chains will be difficult to restore, the economy will be left with large under-utilised resources by end-2021. In the single-hit scenario, economic activity is projected to decline by 8% in 2020 and then increase by 4.6% in 2021. A strong rebound is projected for investment which is supported by higher inflows from European and national funds. For both scenarios, the main downside risks are longer lockdown periods and more persistent scarring of the economy due to high unemployment and business closures. A sharp contraction of the global automotive sector would hit Hungary hard, given the economy's dependence on the sector. Labour misallocation risks becoming a larger problem as the short unemployment benefit period may encourage jobseekers to take on less qualified jobs. Hungary benefits significantly from European Union funds, but a concern is whether these funds can be activated sufficiently quickly for investment. Upside risks include a faster-than-expected recovery of international supply chains, which would help restoring production faster.

Additional policy efforts are needed to sustain the recovery

Policy should ensure a timely withdrawal of support measures once the recovery starts. This concerns in particular state loans and guarantees to avoid supporting non-viable firms and ensure the reallocation of resources to the most productive firms. Key to improved reallocation will also be a faster dispute resolution system that supports corporate restructuring. To avoid otherwise solvent firms going bankrupt, the government should ensure that existing loan schemes are accessible to all firms, in particular capital-weak SMEs. In addition, policy should gradually shift from temporary measures towards demand support. Notably, the new short-time work programme should include employees without regular contracts, such as leased employees. A longer duration of unemployment benefits is a priority to support incomes and encourage job mobility.

Iceland

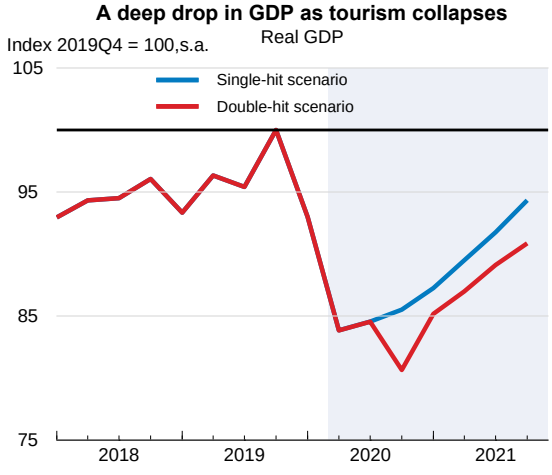
Economic activity is projected to drop by more than 11% in 2020 if there is a renewed virus outbreak (the double-hit scenario as foreign tourism, which collapsed with the crisis, will be down until the end of the year. In the single-hit scenario, where further outbreaks are avoided, GDP will fall less as growth in Europe and the United States recovers and international travel resumes more rapidly. Government spending partially compensates for the decline in household consumption and business investment. Debt will remain below levels reached after the 2009 financial crisis. Despite a relatively resilient labour market, the unemployment rate will peak later this year at over 9% in both scenarios.

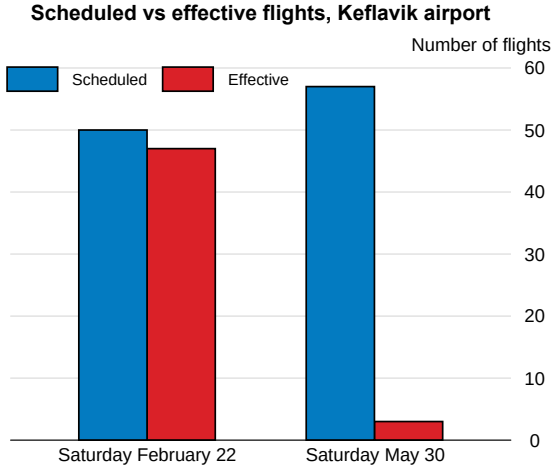
Iceland should restart the economy by fostering diversification, as foreign tourism could remain weak for a long time. Temporary simplifications to the insolvency framework should become permanent, to give firms a second chance or free resources in favour of a fresh start. Planned public investment in research and development could boost business investment. Structural reform, such as strengthening competition or levelling the playing field between domestic and foreign firms, could nurture start-ups and foster innovation in a post-travel-and-tourism economy. Households affected by such reforms should get help through adequate support schemes.

Measures to contain the COVID-19 pandemic were relatively mild

The COVID-19 virus came to Iceland at the end of February. The infection rate peaked in early April and has been ebbing since then, with the capital of Reykjavik and the western fjords being the most affected areas. The health system had sufficient capacity to cope with the crisis despite a below-average number of intensive care units per inhabitant. Early mass testing helped the authorities identify infections and implement targeted health measures.

Iceland





Source: Flightradar24.com; and OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934139461

Iceland: Demand, output and prices (double-hit scenario)

Iceland: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices ISK billion	Percentage changes, volume (2005 prices)				
GDP at market prices	2 490.9	4.5	3.8	1.9	-11.2	3.0
Private consumption	1 235.9	8.1	4.7	1.6	-8.0	4.3
Government consumption	570.7	3.7	3.9	4.1	8.8	-2.6
Gross fixed capital formation	525.9	10.8	-1.1	-6.3	-18.3	17.2
Final domestic demand	2 332.5	7.6	3.2	0.4	-6.0	4.7
Stockbuilding[1]	2.9	-0.5	0.4	0.1	0.2	0.1
Total domestic demand	2 335.4	7.1	3.6	0.1	-5.9	4.7
Exports of goods and services	1 186.6	5.4	1.7	-5.0	-30.7	13.7
Imports of goods and services	1 031.1	12.3	0.8	-9.9	-20.2	18.9
Net exports[1]	155.5	-2.5	0.4	2.0	-5.7	-1.9
Memorandum items						
GDP deflator	_	0.5	2.6	4.4	2.7	2.8
Consumer price index	_	1.8	2.7	3.0	1.9	1.7
Core inflation index[2]	_	2.4	2.5	2.9	1.9	1.8
Unemployment rate (% of labour force)	_	2.8	2.7	3.5	7.8	7.7
General government financial balance (% of GDP)	_	0.6	0.8	-1.0	-9.8	-6.3
General government gross debt[3]	_	63.4	62.1	62.6	73.1	78.5
Current account balance (% of GDP)	_	3.8	3.1	5.9	0.7	-0.3

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
3. Includes unfunded liabilities of government employee pension plans.

Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137941

Containment and mitigation of the pandemic relied on distancing, voluntary self-isolation and a mild lockdown. Most businesses and public entities kept operating except swimming pools, museums, libraries and restaurants. Universities and secondary schools closed between mid-March and beginning of May, but primary and pre-schools stayed open all the time. Gatherings of groups above 20 people were banned. International borders remained open to the Schengen area, although Iceland's only international airport virtually closed to passenger flights.

The missing tourists made the economy plunge

The economy, already slowing in 2019, plunged in the initial months of the pandemic, essentially because of collapsing tourism following the lockdown in Europe and the United States. Foreign tourism accounts for 18% of GDP. Exports of marine products remained stable, with frozen seafood partially replacing fresh seafood. Aluminium exports also held up, although prices declined over the past months. Business confidence fell sharply but remains above the level in summer 2018. Unemployment rose from 3.5% in January to 7% in April.

Policy reacted timely and effectively

Since mid-March, the central bank has lowered the key interest rate in three steps from 2.75% to 1% and eased access to credit by removing all reserve requirements for commercial banks. The bank also started to buy treasury bonds on the secondary market to provide the financial system with sufficient liquidity. Although the króna has depreciated by around 15%, there are no signs of rising inflation as oil and other commodity prices have fallen sharply.

Iceland: Demand, output and prices (single-hit scenario)

Iceland: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices ISK billion	Percentage changes, volume (2005 prices)				
GDP at market prices	2 490.9	4.5	3.8	1.9	-9.9	4.6
Private consumption	1 235.9	8.1	4.7	1.6	-6.7	6.0
Government consumption	570.7	3.7	3.9	4.1	8.3	-3.7
Gross fixed capital formation	525.9	10.8	-1.1	-6.3	-15.8	16.1
Final domestic demand	2 332.5	7.6	3.2	0.4	-4.9	5.1
Stockbuilding[1]	2.9	-0.5	0.4	0.1	0.2	0.1
Total domestic demand	2 335.4	7.1	3.6	0.1	-4.8	5.1
Exports of goods and services	1 186.6	5.4	1.7	-5.0	-28.3	20.0
Imports of goods and services	1 031.1	12.3	0.8	-9.9	-17.9	21.7
Net exports[1]	155.5	-2.5	0.4	2.0	-5.5	-0.6
Memorandum items						
GDP deflator	_	0.5	2.6	4.4	2.7	2.3
Consumer price index	_	1.8	2.7	3.0	1.9	1.9
Core inflation index[2]	_	2.4	2.5	2.9	1.9	1.8
Unemployment rate (% of labour force)	_	2.8	2.7	3.5	7.4	6.0
General government financial balance (% of GDP)	_	0.6	0.8	-1.0	-9.5	-5.8
General government gross debt[3]	_	63.4	62.1	62.6	72.8	77.4
Current account balance (% of GDP)	_	3.8	3.1	5.9	0.9	0.5

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
3. Includes unfunded liabilities of government employee pension plans.

Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137960

At the end of March, the government embarked on a first emergency programme, consisting of tax and social security contribution deferrals, a short-term work scheme, and additional child and family benefits. Households can access third-pillar pension savings. A second programme, amounting to around 2% of GDP, provided a bonus to frontline health workers, strengthened the short-term work scheme, and provided financial relief to firms whose revenues fell by more than 75%. The government also simplified the insolvency framework. The emergency measures target firms and households well and are limited in time.

The economy will recover partially

GDP is projected to drop by 11% in 2020 in the double-hit scenario following a reinstated lockdown and slower recovery in Europe and the United States before growing at 3% in 2021. In the single-hit scenario, the fall will be less deep, as tourism will resume more rapidly. Business investment will follow the fall and recovery of tourism. Household consumption will decline less, cushioned by government support. Public investment, as planned by the government, will help lift the economy out of the trough in late 2020 and 2021.

With a resilient labour market and a declining labour force, the unemployment rate will remain at 9% at the end of 2020 in the double-hit scenario before declining again. The 2020 budget deficit will be one of the largest ever, and in 2021 gross debt will climb close to levels reached after the 2009 financial crisis. Specific risks to the projections include a slower recovery of tourism following changing preferences in international travel, and disruptions to global value chains that could dent aluminium and other goods exports.

Structural reforms could underpin the recovery

Targeted health measures, additional public investment and structural reform could help accelerate the recovery and maintain the wellbeing of the population. Mass testing, tracing and quarantines should continue to help the authorities prevent infections. The temporary simplifications of the insolvency framework should become permanent, to give firms a fresh start once the crisis is over. Advancing regulatory reform, strengthening competition and levelling the playing field between domestic and foreign firms could help create new businesses and diversify the economy to make up for the loss in tourism. Investment in research and innovation, as planned by the government, will help lift private investment and long-term growth. Direct support and short-term work schemes for households affected by shutdowns and regulatory reforms should continue, to make the recovery inclusive.

India

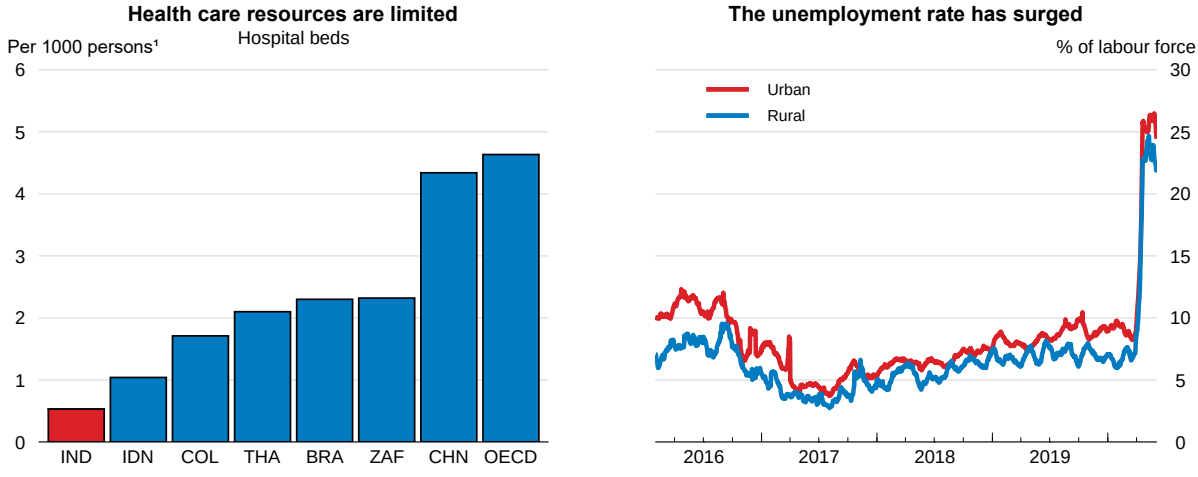
The single hit scenario assumes that the 10-week general lockdown, followed by some targeted lockdowns, succeeds in avoiding an acute health crisis. In the double-hit scenario, a renewed virus outbreak will require a new general shutdown in the autumn. New restrictions on internal migration and disruptions in supply chains would have severe consequences on activity and income while external demand would falter again. In this case, GDP is projected to fall by 7.3% in FY 2020-21, compared to 3.7% in the single-hit scenario. The poor, informal workers and small enterprises will suffer disproportionately; weak bank and corporate portfolio positions will keep the investment rate low, weighing on growth prospects. Inflation remains under control given economic slack and low oil prices. Public deficit will spike, reflecting faltering tax receipts and needed spending to support people, banks and small enterprises.

Protecting human lives is the immediate priority and requires additional health care resources and generous support to the poor. Getting activity back and avoiding a durable effect from the crisis on income and jobs require promoting access to credit. Bank recapitalisations and governance reforms should accompany government-backed guarantee schemes. An inclusive growth strategy over the longer run should include prioritising social investment and income support for the poor, which can be financed by reducing energy and fertiliser subsidies and the tax expenditures that most benefit the rich, and modernising labour and business regulations to promote quality job creation and extend the social safety net.

Despite early and strict containment measures, the virus is affecting many

The virus manifested itself from late January. Infections have been concentrated in large cities, in particular slums, with a risk of a fast spread given India's high population density, poor housing conditions in some areas and large internal migration flows. The number of new cases was still rising as of early June. High air pollution adds to the severity of cases while the population age structure – almost half of Indians are below the age of 25 – has the opposite impact. Human costs from the disease have been compounded by a shortage of healthcare resources, in particular hospital beds, doctors, and testing facilities.

India 1



1. 2018 or latest available year. Data for India refer to 2017.
Source: OECD/WHO Health at a Glance: Asia/Pacific 2018; OECD Health database; Centre for Monitoring Indian Economy (CMIE).

StatLink https://doi.org/10.1787/888934139480

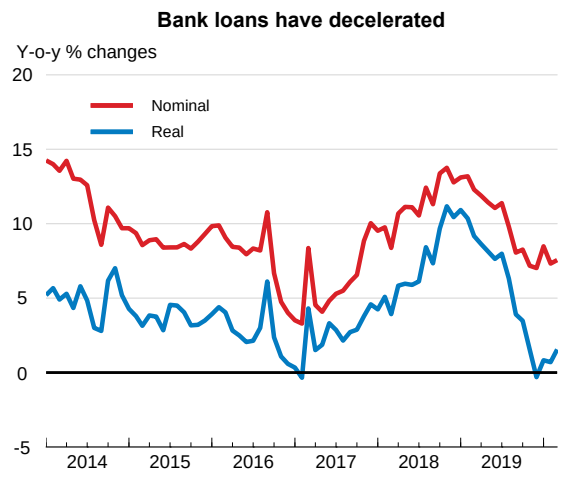
India: Demand, output and prices (double-hit scenario)

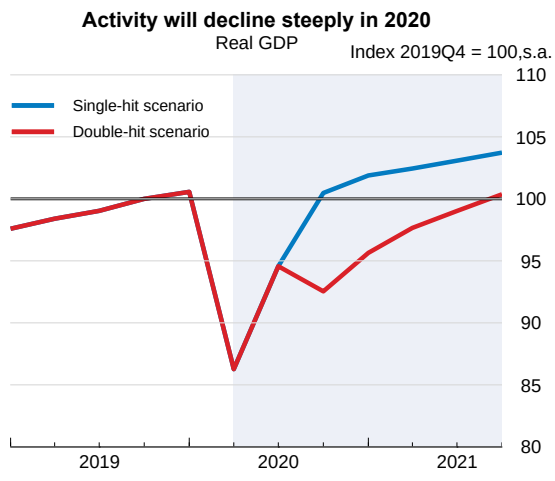
India: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices INR trillion	Percentage changes, volume (2011/2012 prices)				
GDP at market prices	153.9	7.0	6.1	4.2	-7.3	8.1
Private consumption	91.3	7.0	7.2	5.3	-7.6	7.3
Government consumption	15.9	11.8	10.1	11.8	11.6	-2.6
Gross fixed capital formation	43.4	7.2	9.8	-2.8	-22.4	19.6
Final domestic demand	150.5	7.5	8.2	3.6	-9.2	8.6
Stockbuilding[1,2]	6.1	0.8	0.4	0.0	0.1	0.0
Total domestic demand	156.6	9.7	5.5	3.2	-8.3	8.9
Exports of goods and services	29.5	4.6	12.3	-3.6	-13.7	7.1
Imports of goods and services	32.2	17.4	8.6	-6.8	-18.1	11.6
Net exports[1]	- 2.7	-2.8	0.4	0.9	1.2	-0.9
Memorandum items						
GDP deflator	_	3.8	4.6	2.9	3.8	4.2
Consumer price index	_	3.6	3.4	4.8	4.8	4.2
Wholesale price index[3]	_	2.9	4.3	1.7	2.9	3.3
General government financial balance[4] (% of GDP)	_	-5.8	-6.2	-6.1	-8.9	-8.2
Current account balance (% of GDP)	_	-1.9	-2.1	-1.0	0.0	-0.8

Note: Data refer to fiscal years starting in April.
1. Contributions to changes in real GDP, actual amount in the first column.
2. Actual amount in first column includes statistical discrepancies and valuables.
3. WPI, all commodities index.
4. Gross fiscal balance for central and state governments.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137979

India 2





Source: Reserve Bank of India; and OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934139499

India: Demand, output and prices (single-hit scenario)

India: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices INR trillion	Percentage changes, volume (2011/2012 prices)				
GDP at market prices	153.9	7.0	6.1	4.2	-3.7	7.9
Private consumption	91.3	7.0	7.2	5.3	-4.8	6.7
Government consumption	15.9	11.8	10.1	11.8	10.4	-2.3
Gross fixed capital formation	43.4	7.2	9.8	-2.8	-14.5	17.2
Final domestic demand	150.5	7.5	8.2	3.6	-5.6	8.0
Stockbuilding[1,2]	6.1	0.8	0.4	0.0	0.1	0.0
Total domestic demand	156.6	9.7	5.5	3.2	-4.5	8.2
Exports of goods and services	29.5	4.6	12.3	-3.6	-9.5	9.6
Imports of goods and services	32.2	17.4	8.6	-6.8	-12.7	10.9
Net exports[1]	- 2.7	-2.8	0.4	0.9	0.9	-0.4
Memorandum items						
GDP deflator	_	3.8	4.6	2.9	3.9	4.1
Consumer price index	_	3.6	3.4	4.8	4.9	4.3
Wholesale price index[3]	_	2.9	4.3	1.7	2.9	3.7
General government financial balance[4] (% of GDP)	_	-5.8	-6.2	-6.1	-8.2	-7.2
Current account balance (% of GDP)	_	-1.9	-2.1	-1.0	-0.3	-0.6

Note: Data refer to fiscal years starting in April.
1. Contributions to changes in real GDP, actual amount in the first column.
2. Actual amount in first column includes statistical discrepancies and valuables.
3. WPI, all commodities index.
4. Gross fiscal balance for central and state governments.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137998

To contain the virus from spreading, the government reacted swiftly by introducing border measures and quarantines in mid-March despite a still low number of identified cases. It took measures to free up healthcare resources for those affected by the virus, including the deferment of elective surgeries and temporary export restrictions on medical goods, and ramped up testing capacities. It introduced a mobile app (Aarogya Setu), to help people identify their risk of contracting COVID-19 through tracking and contact tracing, and to connect people to healthcare services. Some states have built on their experience with other viruses and used extensive testing, contact tracing and community mobilisation. The strict lockdown implemented on 25 March, including the suspension of all domestic public transport, has helped to flatten the infection curve. It has been relaxed in a phased manner since 20 April, starting with rural and agricultural activities, export and special economic zones and in COVID-19-free districts. However, strict confinement measures have been maintained in areas where the number of cases is high or rising (so-called containment zones).

The COVID-19 crisis is affecting the poor and small enterprises the most

The lockdown has taken a heavy toll on the economy, with up to two-thirds of activity either shut down or working at reduced pace during the first four weeks and more than a fourth in the following four weeks according to various estimates. The mobility of individuals has fallen steeply in Delhi and Mumbai, though less so in rural areas. Trade, transport and construction have been badly hit. The unemployment rate has surged. Urban workers with no formal job contract and daily labourers have suffered the most. Millions of domestic migrants have struggled to go back to their villages and families. Agricultural activities have faced labour shortages during a peak, harvesting, season. The purchasing manager index for both manufacturing and services contracted sharply in both April and May, reflecting business closures and falling demand.

The lockdown is disproportionately affecting small enterprises with limited cash-flow, with knock-on effects on supply and distribution chains. This adds to the financial woes that India was experiencing before the COVID-19 crisis from overly leveraged corporates, high non-performing loans and recurrent liquidity and solvency problems for some banks and other financial institutions. The spike in corporate yields and subdued lending activity suggest that risk aversion is high.

The authorities have announced a wide set of support measures and structural reforms

A 10%-of-GDP support package has been introduced, including fiscal and monetary support, as well as guarantee schemes. The Reserve Bank of India has acted swiftly to reduce the cost of capital and avoid the liquidity shortfall induced by the lockdown becoming a solvency crisis, with permanent economic and social costs. It cut policy rates, injected liquidity (about 4% of GDP), including through long-term repo operations, and softened prudential norms. The impact on the real economy is, however, somewhat muted by banks and corporates' balance sheet problems and acute risk aversion.

The government introduced two sets of fiscal support measures. The first package, introduced late March, embodied a health emergency component and support for most vulnerable groups, including one-off cash transfers to more than 200 million rural women with basic bank accounts and 30 million old-age and disabled people, in-kind support (mainly food) for about two-thirds of the population and a medical insurance cover for health professionals. The second package announced mid-May enhanced in-kind and cash support, targeting in particular millions of internal migrants without ration cards, and extended the rural workfare scheme. It also contained several measures to reduce financial stress and ease access to funding for various entities, including non-bank financial corporations, micro, small and medium enterprises, farmers, street vendors, the power sector and real estate companies. The government further announced several structural reforms to encourage investment, including partial deregulation of the agricultural sector, lower entry restrictions in eight industrial sectors and a revised definition of micro, small and medium-sized enterprises, which reduces incentives to stay small.

Activity will recover only slowly, leaving many vulnerable people and companies worse off

The single-hit scenario assumes that the strict national lockdown (25 March - 19 April) followed by a very gradual opening in the following six weeks (20 April – 31 May) and targeted lockdowns in June succeed in controlling the infection rate. In the double-hit scenario, new containment measures and strict social distancing measures have to be re-introduced in the last quarter of 2020 and the economy also suffers from lower external demand as a second wave of infections hits its trade partners.

The economy will recover as lockdown measures are eased, but will suffer from scares. Pent-up demand from postponed consumption and inventory restocking will boost activity. Lower oil prices will be a boon for households and companies, inflation, the budget and the current account deficit. However, domestic demand will suffer from the permanent loss of income in many enterprises and the informal workers who lost their jobs. Uncertainty over the return of working migrants, the difficulty for small enterprises to finance their working capital, and business closures will disrupt supply chains. Subdued quality job creation will heighten poverty. Stress on the balance sheets of the government, banks and corporates will make it difficult for the investment rate to recover promptly, holding back future growth prospects. Adverse impacts of the crisis will be more severe in the double-hit scenario, with investment falling by 22% in FY 2020-21 and income remaining below pre-crisis level up to the third quarter of FY 2021-22. In the more benign scenario, the decline in investment and consumption is less pronounced and income reverts back to the

pre-crisis level in the last quarter of 2020. The fiscal deficit will rise, reflecting collapsing tax revenue, the need to bail out financial institutions and firms, and lower-than-budgeted privatisation proceeds.

Heightened financial market instability, resulting from the deterioration in balance sheets of the government, corporates and banks, is a key risk. Public debt, non-performing loans and corporate leverage were all high before the COVID-19 crisis. The threat of sovereign and corporate rating downgrades would affect private investment and the government budget. On the other hand, external vulnerability is lower than in many other EMEs, given a relatively low external debt-to-GDP ratio and large foreign exchange reserves. History reveals that India tends to undertake structural reforms best during severe crises; new measures could be announced to unlock the growth potential and job creation, on top of those announced in May for the agricultural and industrial sectors.

Policies should address urgent and longer-term priorities

The first priority is to mitigate the human and sanitary crisis by ramping up health care resources (in particular testing kits, isolation facilities and drugs) and by providing sufficient cash and in-kind support to all those in dire need. Adjusting support programmes to needs, as the sanitary situation develops, will be key. The second priority is to reboot economic activity and job creation. Newly created government-backed guarantee schemes to ease enterprises' access to loans should be accompanied by a bold programme to reform and recapitalise public sector banks. This, together with an adjustment in administered interest rates, would help improve monetary policy transmission. In the longer run, the authorities will need to be more selective in supporting companies and banks. Faster bankruptcy resolution procedures will avoid locking resources in zombie firms. Incentives for the states to implement structural reforms, in particular in the agricultural sector placed under their responsibility, could be promoted beyond the recent conditional increase in their borrowing limit from 3% to 5% of state GDP, e.g. through the vertical grant system. Modernising labour laws would bring more workers into the formal sector and extend the social safety net. India could also progress further in moving from price subsidies to direct/digitised income transfers, an area where India has progressed rapidly. Reducing subsidies on fertilisers, water and energy consumption would reduce pressures on environmental resources and create fiscal space to improve social infrastructure, including education and health, and income support for the poor and rural workers.

Indonesia

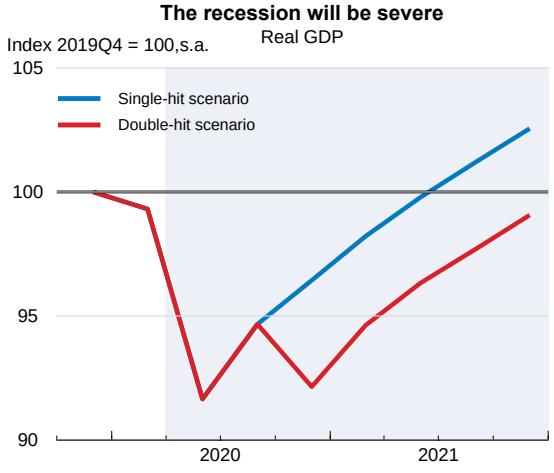
Following the outbreak of COVID-19, GDP is projected to contract in 2020, for the first time since the 1997 Asian crisis, by 2.8% or 3.9% depending on the scenario. The recovery will be subdued, with employment and income losses holding back private consumption, and by end-2021, GDP is projected to be 8% to 10% below its pre-crisis trend level depending on whether a second global wave of infections occurs later in 2020. The socio-economic consequences of the recession will be severe, notably for lower middle class groups, which are at great risk of falling back into poverty.

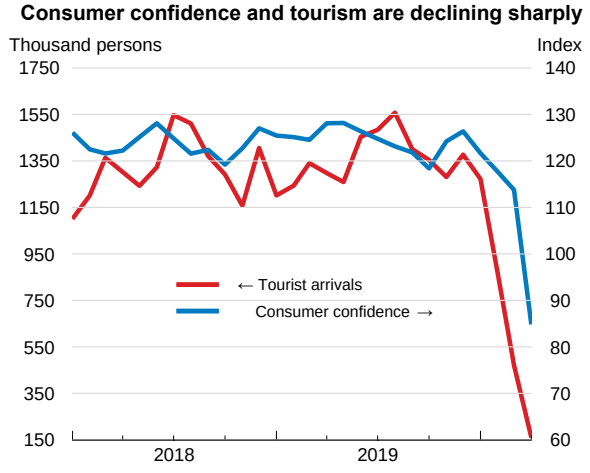
The COVID-19 recession is revealing some shortcomings of existing programmes in providing assistance to vulnerable individuals. Doubling the resources for the new pre-employment card programme and reorienting it to assist laid-off and furloughed workers has been an expeditious solution, but cannot substitute for the progressive introduction of a well-funded unemployment insurance scheme. Restarting infrastructure investment, while ensuring that the stimulus is socially and environmentally sustainable, should also be a priority.

The disease has spread fast

The pandemic officially reached Indonesia in early March, with the first imported case reported on 2 March. By 9 April, the pandemic had spread to all provinces, with Jakarta, West Java, and East Java worst hit. Health insurance covers over 80% of the population, but gaps remain in terms of health infrastructure, medical equipment and health professionals, especially in rural areas. Focusing resources devoted to the COVID-19 pandemic may aggravate vulnerability to other diseases endemic in Indonesia, such as dengue fever. In addition, co-ordination failures between local and central government are complicating policy responses to the health emergency.

Indonesia 1





Source: OECD Economic Outlook 107 database; and CEIC database.

StatLink https://doi.org/10.1787/888934139518

Indonesia: Demand, output and prices (double-hit scenario)

Indonesia: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices IDR trillion	Percentage changes, volume (2010 prices)				
GDP at market prices	12 401.7	5.1	5.2	5.0	-3.9	2.6
Private consumption	7 171.5	5.0	5.1	5.2	-4.4	2.7
Government consumption	1 181.6	2.1	4.8	3.2	8.8	7.3
Gross fixed capital formation	4 040.2	6.2	6.6	4.4	-5.9	0.3
Final domestic demand	12 393.3	5.1	5.6	4.8	-3.8	2.3
Stockbuilding[1]	- 85.4	-0.2	0.7	-1.0	-0.3	0.0
Total domestic demand	12 307.9	4.8	6.2	3.6	-4.1	2.3
Exports of goods and services	2 367.4	8.9	6.5	-0.9	-7.4	2.1
Imports of goods and services	2 273.5	8.1	11.9	-7.7	-9.1	0.2
Net exports[1]	93.8	0.3	-0.9	1.4	0.1	0.4
Memorandum items						
GDP deflator	_	4.3	3.8	1.6	1.1	2.6
Consumer price index	_	3.8	3.2	3.0	2.4	2.7
Private consumption deflator	_	3.4	3.3	3.2	2.9	3.2
General government financial balance (% of GDP)	_	-1.9	-2.2	-1.9	-6.9	-5.5
Current account balance (% of GDP)	_	-1.6	-3.0	-2.7	-2.7	-2.7

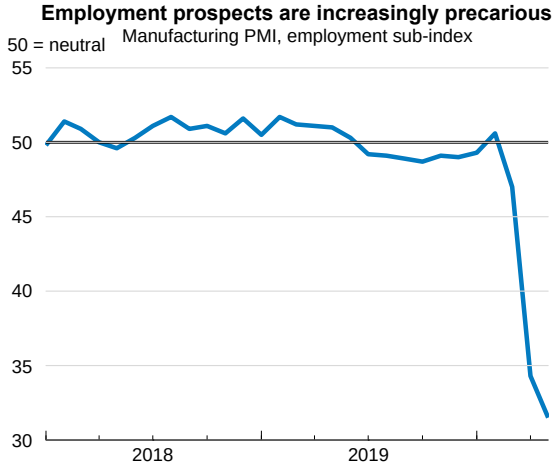
1. Contributions to changes in real GDP, actual amount in the first column.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138017

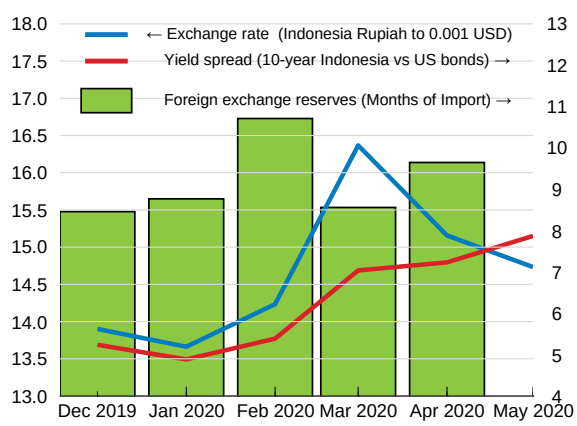
Nationwide measures to stem the spread of the virus have been relatively mild, especially compared to the rest of East Asia. The focus has been on distancing, school closure, telework, and international travel restrictions. As the number of infections rose, stronger measures were introduced in mid-April, including a partial lockdown in Jakarta and other large cities, declaring COVID-19 a national disaster, banning the annual post-Ramadan Idul Fitri *mudik* (exodus), and suspending intercity travel. The classification of COVID-19 as a disaster emergency was intended to expedite administrative responses.

Indonesia 2

Employment prospects are increasingly precarious



Financial market developments expose structural frailties



Source: Markit; Refinitiv; and CEIC database.

StatLink https://doi.org/10.1787/888934139537

Indonesia: Demand, output and prices (single-hit scenario)

Indonesia: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices IDR trillion	Percentage changes, volume (2010 prices)				
GDP at market prices	12 401.7	5.1	5.2	5.0	-2.8	5.2
Private consumption	7 171.5	5.0	5.1	5.2	-3.1	5.3
Government consumption	1 181.6	2.1	4.8	3.2	8.5	6.3
Gross fixed capital formation	4 040.2	6.2	6.6	4.4	-4.6	4.2
Final domestic demand	12 393.3	5.1	5.6	4.8	-2.7	5.0
Stockbuilding[1]	- 85.4	-0.2	0.7	-1.0	-0.3	0.0
Total domestic demand	12 307.9	4.8	6.2	3.6	-3.0	4.9
Exports of goods and services	2 367.4	8.9	6.5	-0.9	-5.9	5.8
Imports of goods and services	2 273.5	8.1	11.9	-7.7	-7.4	4.7
Net exports[1]	93.8	0.3	-0.9	1.4	0.1	0.3
Memorandum items						
GDP deflator	_	4.3	3.8	1.6	1.2	2.8
Consumer price index	_	3.8	3.2	3.0	2.5	2.8
Private consumption deflator	_	3.4	3.3	3.2	3.0	3.2
General government financial balance (% of GDP)	_	-1.9	-2.2	-1.9	-6.7	-5.2
Current account balance (% of GDP)	_	-1.6	-3.0	-2.7	-2.8	-2.8

1. Contributions to changes in real GDP, actual amount in the first column.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138036

The economic situation has deteriorated sharply

GDP contracted in the first quarter of 2020, weighed down by weak household consumption and investment. Despite falling commodity prices, foreign trade recorded a surplus as Indonesian manufacturing exporters seized opportunities deriving from the lockdown in China. Since mid-March, consumer confidence, new car sales, and the manufacturing PMI have all retrenched, while CPI inflation declined. As containment measures became effective, the impact of COVID-19, initially limited to the tourism sector, spread to retail trade and manufacturing. The number of foreign visitors, in particular, fell dramatically in March-April following the suspension of air transport services and is likely to plunge even lower at least until mid-year. Major investment projects were suspended. With economic activity losing momentum, the labour market has weakened, as reflected in the number of new social security system registrations and indicators of employment in manufacturing. Hardships are particularly severe for informal workers, who account for more than two-thirds of the workforce and cannot afford to respect stay-at-home recommendations as their lives depend on securing a daily income.

The economic policy response has been swift and substantial

The constitutional ceiling on the fiscal deficit of 3% of GDP has been suspended until 2023 and an economic stimulus package worth IDR 405.1 trillion (USD 27.5 billion) was announced end-March. The emergency resources are directed at strengthening the health sector (purchases of medical equipment and incentives for medical workers) and sustaining the most vulnerable individuals and firms. Specific actions include reorienting the pre-employment card programme to assist laid-off workers, deferring tax payments, favouring SME credit restructuring, accelerating VAT refunds, and reducing the corporate income tax rate by 3 percentage points. In addition, the deteriorating financial and operational situation prompted the adoption of the National Economic Recovery Programme that includes new capital injections into selected state-owned enterprises (SOEs) to prevent them from missing debt obligations. Bank

Indonesia trimmed its policy rate from 5% to 4.5%, started purchasing government securities in the primary market as a last resort to maintain financial system stability, relaxed macro-prudential policy to counter adverse developments, and boosted dollar liquidity supply through bilateral swap agreements with other central banks. The State Financial Services Authority has issued regulations to facilitate financial restructuring.

With the stimulus package, the government aims at mitigating the economic slowdown and supporting the population in need, while preserving its hard-won credibility with international investors. The budget resources will prioritise the 10 million families in the Family Hope programme (Program Keluarga Harapan) and the 20 million families in the staple food one (Rastra), thus focusing on food security and poverty traps. The risk exists, however, of missing vulnerable groups in metropolitan areas, such as self-employed workers and micro and small business owners, as well as informal itinerant workers who do not have a government identity card. The actions of the monetary and financial authorities have sustained asset prices, stabilised the currency, and contributed to the successful placement of the first global bond issue, which included the longest-dated dollar debt tranche ever issued in Asia. However, foreign exchange reserves have fluctuated and the deterioration in investor sentiment towards emerging-market economies remains a headwind.

The recovery will be bumpy

Following a sharp GDP contraction in the second quarter and a rise in unemployment, the recovery is set to start in the third quarter, as the authorities lift distancing measures and consumer confidence slowly returns. Under both scenarios, GDP is projected to shrink in 2020 and then to recover modestly in line with global developments, albeit registering a substantial loss compared to the pre-pandemic trend. The budget deficit is expected to more than double in 2020, but then to decline slowly in 2021, as some of the exceptional support measures are phased out. With the economy still sluggish, inflation will remain under control, although some pressures on food prices may emerge from disruptions in the domestic agricultural supply chain and export controls in producing countries. In the double-hit scenario, the policy interest rate is assumed to be cut further.

Over the projection horizon, Indonesia will confront a set of risks that are common to all emerging market economies, such as rising protectionism, growing risk aversion, a flight to quality and sudden capital reversals, as well as others that are country-specific. Among the latter ones, a major risk is of a resurgence of the pandemic in the second half of the year, with the corresponding re-imposition of containment measures. If the labour market rebound is weaker and slower than expected, higher unemployment may weigh on domestic demand and delay the recovery. Tourism could suffer more and for longer than anticipated due to the severity of the shock. In addition, as private sector debt has risen fast in recent years, especially in foreign currencies, non-financial corporates and banks are strongly exposed to any deterioration in financial market conditions. On the upside, emergency social interventions may be more effective than expected and private consumption may return faster to its trend growth rate. Similarly, liquidity-enhancing measures may result in higher investment and greater demand for consumer durables. Commodity prices may also experience a faster and larger rebound.

Policies should respond to the emergency and maintain the reform momentum

The unprecedented scale of the fiscal stimulus is appropriate to support the economy and should be continued as long as needed and be accompanied by complementary actions to monitor the use of state resources, including for the bail-out of state-owned enterprises, and avoid any misallocation. Spending should be directed at reinforcing the preparedness of the health system against future pandemic outbreaks in terms of hospital beds, test kits, personnel, medicine and appropriate medical procedures. Appropriate resources should also be devoted at collecting high-quality data on eligible beneficiaries of food aid and cash transfers, especially in peripheral municipalities and regencies. The crisis is also revealing the need to strengthen existing programmes to help the most vulnerable in society, including unemployed and informal workers who are at risk of falling into poverty. Reallocating the resources of newly launched pre-employment cards to assist laid-off and furloughed workers has been an expeditious solution, but in the medium run it cannot substitute for the introduction of a well-funded unemployment insurance scheme. The pandemic emergency reinforces the importance of meeting the long-run targets of eradicating poverty and escaping the middle-income trap through inclusive growth. Parliament is discussing two major omnibus bills on job creation and on taxation that in the medium run would facilitate investment, productivity growth, and sustainable development. Their approval would be a strong signal of the commitment to keep the momentum of both regulatory and social reforms, even amid very unfavourable circumstances.

Ireland

The economy is set to contract strongly in the first half of 2020 amid a strict lockdown. Supportive economic policies are cushioning workers and businesses from the full impact of the shock. However, depressed confidence and impaired household and business balance sheets will hold back the recovery as the economy further reopens. The second wave of virus assumed in the double-hit scenario entails additional business closures and job losses, delaying the recovery and threatening to entrench long-term unemployment and risk aversion by firms. If this were to occur, annual GDP would decline by 8¾ per cent in 2020 with virtually no recovery in 2021. If a further outbreak is avoided (the single-hit scenario), GDP would fall by 6¾ per cent in 2020 and then recover by 4¾ per cent in 2021.

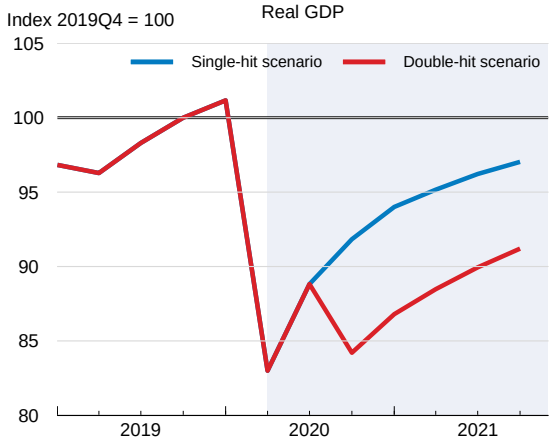
The authorities should remain prepared to extend existing support measures if required. Policies that provide additional liquidity to viable small and medium enterprises may be needed. New investment in active labour market programmes for the unemployed should be coupled with a reorientation of services to reflect the characteristics of newly unemployed workers. A key tenet should be encouraging participation in adult learning, including by promoting distance learning opportunities.

The rapid spread of the virus caused a strict lockdown

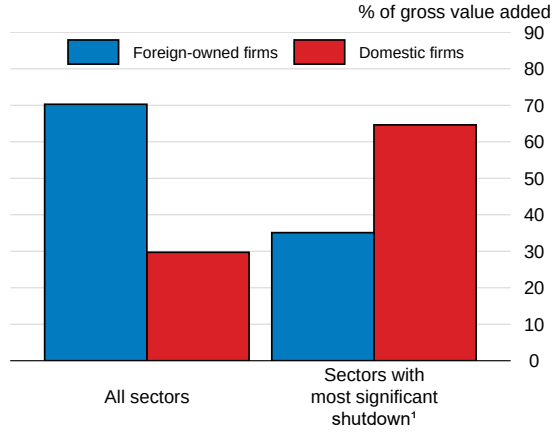
Following the first confirmed COVID-19 infection in Ireland in late February, the virus spread rapidly. The initial cases were mostly associated with travellers returning from northern Italy, but community transmission was rife by mid-March. The number of new daily cases rose steadily until mid-April, before subsequently easing. A high proportion of cases have been concentrated in Dublin and its bordering counties and most infections have been in individuals aged over 45. Managing the pandemic has been made easier by the relatively young age profile of the Irish population, though the health system was already experiencing significant strains at the onset of the crisis. This was most visible in very high occupancy rates in Irish hospitals and long waiting times for various types of elective surgery.

Ireland

The shape of the recovery is uncertain



Shutdowns have heavily impacted indigenous firms



1. Sectors with the most significant shutdown are wholesale and retail trade, accommodation and food, real estate activities and arts, entertainment and recreation.
Source: OECD Economic Outlook 107 database; and Central Statistics Office.

StatLink https://doi.org/10.1787/888934139556

Ireland: Demand, output and prices (double-hit scenario)

Ireland: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices EUR billion	Percentage changes, volume (2017 prices)				
GDP at market prices	271.4	8.1	8.3	5.5	-8.7	-0.2
Private consumption	91.8	3.3	3.4	2.8	-14.4	-1.3
Government consumption	33.5	3.5	4.4	5.1	5.9	7.6
Gross fixed capital formation	96.5	-5.0	-22.7	91.0	25.0	-4.1
Final domestic demand	221.7	-0.8	-6.2	35.7	9.8	-1.6
Stockbuilding[1]	6.8	1.1	-2.0	0.6	-1.2	0.0
Total domestic demand	228.5	9.4	-6.9	35.6	6.9	-1.6
Exports of goods and services[2]	328.0	9.1	10.4	11.2	-7.4	2.6
Imports of goods and services	285.1	1.1	-3.0	34.7	5.7	1.5
Net exports[1]	42.9	9.9	15.6	-17.2	-15.7	1.4
Memorandum items						
GVA[3], excluding sectors dominated by foreign-owned multinational enterprises	_	4.7	3.9	4.9	-11.3	-0.5
GDP deflator	_	1.1	0.8	1.5	0.2	-0.1
Harmonised index of consumer prices	_	0.3	0.7	0.9	0.1	0.1
Harmonised index of core inflation[4]	_	0.2	0.3	0.9	0.3	0.3
Unemployment rate (% of labour force)	_	6.7	5.7	4.9	12.3	12.9
General government financial balance[5] (% of GDP)	_	-0.3	0.1	0.4	-9.7	-9.0
General government gross debt (% of GDP)	_	77.4	76.0	72.0	86.8	96.5
General government debt, Maastricht definition (% of GDP)	_	67.8	63.6	58.8	73.6	83.2
Current account balance (% of GDP)	_	0.5	10.6	-9.5	-28.1	-28.5

1. Contributions to changes in real GDP, actual amount in the first column.
2. So called "contract manufacturing" (exports of goods produced abroad under contract from an Irish-based entity) by multinational enterprises is assumed to remain at the 2019 level in 2020 and 2021.
3. Gross value added.
4. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
5. Includes the one-off impact of recapitalisations in the banking sector.

Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138055

A strict lockdown was announced in late March, with the population urged to stay home unless buying food, attending medical appointments or engaging in physical exercise close by. At the same time, measures were taken to strengthen the health system. These included agreements with general practitioners to ensure cost is not a barrier to accessing services, the utilisation of private hospital capacity and the expansion of acute and community capacity.

Economic activity has slumped due to containment measures

The domestic and international containment measures have precipitated a deep economic slump. Household demand has fallen, with the volume of retail sales contracting by 43% in April over a year earlier. Bars and clothing, footwear and textiles experienced the largest declines in activity in April. Indicators of business confidence have plummeted in retail trade, but also in other services and manufacturing, largely reflecting shrinking export orders, as activity in Ireland's major export partners has also contracted sharply. Many of the sectors most heavily impacted by domestic containment measures are characterised by a relatively high proportion of domestically-owned businesses. Such firms may be more likely to face cash-flow constraints than their foreign-owned counterparts.

Ireland: Demand, output and prices (single-hit scenario)

Ireland: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices EUR billion	Percentage changes, volume (2017 prices)				
GDP at market prices	271.4	8.1	8.3	5.5	-6.8	4.8
Private consumption	91.8	3.3	3.4	2.8	-12.3	5.2
Government consumption	33.5	3.5	4.4	5.1	5.7	6.9
Gross fixed capital formation	96.5	-5.0	-22.7	91.0	29.1	4.6
Final domestic demand	221.7	-0.8	-6.2	35.7	12.6	5.1
Stockbuilding[1]	6.8	1.1	-2.0	0.6	-1.3	0.0
Total domestic demand	228.5	9.4	-6.9	35.6	9.6	4.9
Exports of goods and services[2]	328.0	9.1	10.4	11.2	-5.2	5.9
Imports of goods and services	285.1	1.1	-3.0	34.7	8.5	6.0
Net exports[1]	42.9	9.9	15.6	-17.2	-16.0	-0.2
Memorandum items						
GVA[3], excluding sectors dominated by foreign-owned multinational enterprises	_	4.7	3.9	4.9	-9.6	4.1
GDP deflator	_	1.1	0.8	1.5	0.4	0.5
Harmonised index of consumer prices	_	0.3	0.7	0.9	0.2	0.6
Harmonised index of core inflation[4]	_	0.2	0.3	0.9	0.3	0.6
Unemployment rate (% of labour force)	_	6.7	5.7	4.9	10.8	8.5
General government financial balance[5] (% of GDP)	_	-0.3	0.1	0.4	-8.4	-5.4
General government gross debt (% of GDP)	_	77.4	76.0	72.0	84.5	87.5
General government debt, Maastricht definition (% of GDP)	_	67.8	63.6	58.8	71.2	74.3
Current account balance (% of GDP)	_	0.5	10.6	-9.5	-26.8	-26.1

1. Contributions to changes in real GDP, actual amount in the first column.
2. So called "contract manufacturing" (exports of goods produced abroad under contract from an Irish-based entity) by multinational enterprises is assumed to remain at the 2019 level in 2020 and 2021.
3. Gross value added.
4. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
5. Includes the one-off impact of recapitalisations in the banking sector.

Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138074

The shock is being cushioned by a raft of new public support measures

Support measures were introduced to limit permanent worker layoffs. These included a temporary wage subsidy, which had been paid to over 495 thousand employees by the end of May. An enhanced COVID-19 Pandemic Unemployment Payment was also established for workers who have lost their jobs due to the crisis. At the end of April, such payments were being made to over 590 thousand people, equivalent to one quarter of the total labour force. However, the number of recipients had declined to around 543 thousand by the start of June, with most of the individuals no longer receiving the payment moving into work. Policies to protect viable firms from becoming insolvent have also been implemented, including various loan schemes and deferrals of tax payments and business fees payable to local authorities.

The pattern of recovery is highly uncertain

Gross domestic product will contract massively in the second quarter of 2020, even with containment measures being gradually unwound from mid-May. As the economy reopens, consumption possibilities will expand and some businesses will make investments that had been deferred. Nevertheless, ongoing caution and impaired household and business balance sheets will temper the speed of the recovery. In the

double-hit scenario, which assumes a second, albeit smaller, lockdown in the final quarter of the year, uncertainty will rise substantially and there will be a wave of job losses and business closures above those in the single-hit scenario. It is assumed that the government will extend some discretionary fiscal support into 2021 under the double-hit scenario. Real GDP is projected to fall by 8.7% and 6.8% in 2020 in the double-hit and single-hit scenarios respectively. In 2021, it is projected to fall by 0.2% in the double-hit scenario and to grow by 4.8% under the single-hit scenario.

Although the Irish economy recovered strongly from the financial and sovereign debt crisis, legacies from that period remain which make it more vulnerable to downside risks. The impact of subsequent negative shocks could be exacerbated by high household debt and weak bank profitability, as well as still high general government debt. An increase in barriers to trade between the United Kingdom and the European Union following the transition period is also a downside risk as the United Kingdom remains a key trading partner. An upside risk is that a boom in the pharmaceutical and medical device manufacturing industries, which have a significant presence in Ireland, has relatively large spillovers to the domestic economy if value chains become more localised.

Public policy settings will require further adjustment

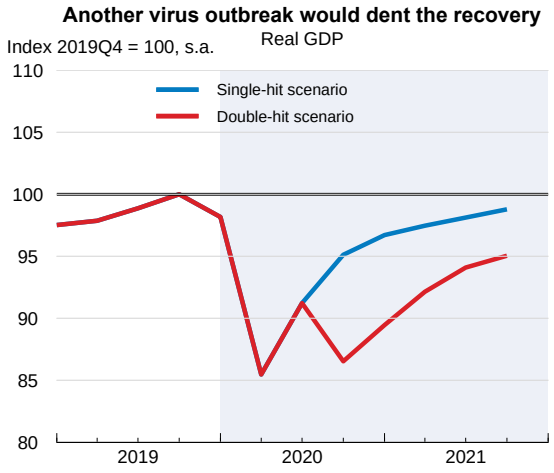
Policymakers should stand ready to extend existing support measures further if sanitary restrictions persist, or are reinstated in the second half of the year. Loan guarantees and public equity injections for viable but liquidity-constrained firms should be undertaken as needed. To minimise the damaging effects of unemployment, active labour market programmes will need to be reoriented to the new cohort of jobseekers. Effective statistical profiling systems for segmenting recipients into different categories for engagement with programmes will be crucial. Lifelong learning pathways, including distance-based learning, should be promoted more actively, given likely structural changes in labour demand and relatively low participation in training by young low-skilled Irish adults. To enhance the preparedness of the health sector for further outbreaks, care that can be provided effectively in primary and community settings should continue to be shifted out of hospitals.

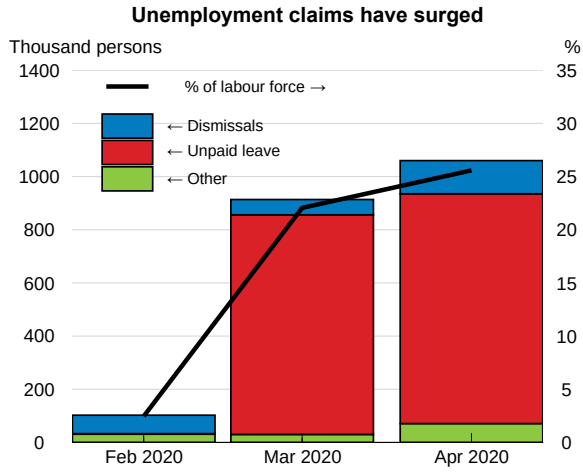
Israel[1]

The economy is facing a severe recession this year with GDP projected to fall by 8.3% if the COVID-19 outbreak returns later in the year (the double-hit scenario) and by 6.2% if the pandemic subsides by summer (the single-hit scenario). Containment measures have been stringent but of a shorter duration than in other OECD countries, which moderated the downturn. However, activity is set to recover only gradually and the GDP level will remain below pre-crisis levels at the end of 2021, as high unemployment and uncertainty weigh on domestic demand and external demand picks up only slowly. In the double-hit scenario, additional firm insolvencies and prolonged unemployment will further weaken the recovery and inflict more severe long-term damage to the economy.

The government and the central bank have put in place appropriate measures to support household income and firms' liquidity. Fiscal policy should remain supportive until the recovery is well on track. Further measures to retain employment, strengthen training and enhance liquidity to small firms may be necessary if the recovery is weak. If financial conditions tighten, the central bank could expand asset purchases and ease prudential measures further.

Israel





Source: OECD Economic Outlook 107 database; and Israel National Employment Service.

StatLink https://doi.org/10.1787/888934139575

[1] The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Israel: Demand, output and prices (double-hit scenario)

Israel: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices NIS billion	Percentage changes, volume (2015 prices)				
GDP at market prices	1 225.0	3.6	3.5	3.5	-8.3	2.6
Private consumption	670.9	3.3	3.6	3.9	-11.6	4.4
Government consumption	274.7	3.4	4.1	3.6	5.1	3.1
Gross fixed capital formation	253.7	4.2	5.0	1.1	-17.1	-1.3
Final domestic demand	1 199.2	3.5	4.0	3.2	-8.8	2.9
Stockbuilding[1]	6.3	0.3	-0.4	0.1	1.1	-0.3
Total domestic demand	1 205.6	3.8	3.6	3.4	-7.6	2.6
Exports of goods and services	363.7	4.0	5.7	4.1	-10.9	2.6
Imports of goods and services	344.4	4.9	6.3	3.5	-10.5	2.6
Net exports[1]	19.4	-0.2	-0.1	0.2	-0.3	0.1
Memorandum items						
GDP deflator	_	0.2	1.1	2.3	0.5	0.9
Consumer price index	_	0.2	0.8	0.8	-0.6	0.2
Core inflation index[2]	_	0.0	0.6	0.7	-0.1	0.3
Unemployment rate (% of labour force)	_	4.2	4.0	3.8	8.0	8.8
General government financial balance (% of GDP)	_	-1.1	-3.6	-4.0	-12.1	-10.4
General government gross debt (% of GDP)	_	60.5	60.9	61.7	78.7	86.6
Current account balance (% of GDP)	_	2.3	2.6	3.5	3.4	3.3

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138093

Strict containment measures were introduced swiftly and allowed an early partial reopening of the economy

Israel's first case of the COVID-19 virus was detected on 21 February and the virus spread quickly thereafter. Infection rates have been higher in several Ultra-Orthodox and Arab-Israeli towns and neighbourhoods. Since early April, the daily number of new infections has trended down. The death toll has been lower than in many other OECD countries. Israel's young population and universal health coverage likely mitigated the human cost of the crisis.

Israel reacted swiftly to the pandemic. It was among the first countries to close its borders to foreign visitors in early March. Educational institutions were closed by mid-March and strict mobility and workforce restrictions were introduced by end-March. Lockdown measures have been flanked by contact tracing using mobile data, widespread testing and additional government funds (around 0.7% of GDP) to increase health sector capacity. On 19 April, a gradual easing of lockdown measures began, starting with the reopening of retail street shops. Since May, most businesses have been allowed to open under health and distancing requirements, movement and gathering restrictions have been lifted and the school system has been almost fully reopened.

Israel: Demand, output and prices (single-hit scenario)

Israel: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices NIS billion	Percentage changes, volume (2015 prices)				
GDP at market prices	1 225.0	3.6	3.5	3.5	-6.2	5.7
Private consumption	670.9	3.3	3.6	3.9	-8.8	8.9
Government consumption	274.7	3.4	4.1	3.6	4.9	1.4
Gross fixed capital formation	253.7	4.2	5.0	1.1	-14.1	4.3
Final domestic demand	1 199.2	3.5	4.0	3.2	-6.6	6.0
Stockbuilding[1]	6.3	0.3	-0.4	0.1	1.1	-0.3
Total domestic demand	1 205.6	3.8	3.6	3.4	-5.5	5.6
Exports of goods and services	363.7	4.0	5.7	4.1	-8.5	6.7
Imports of goods and services	344.4	4.9	6.3	3.5	-8.3	6.4
Net exports[1]	19.4	-0.2	-0.1	0.2	-0.2	0.2
Memorandum items						
GDP deflator	_	0.2	1.1	2.3	0.6	0.9
Consumer price index	_	0.2	0.8	0.8	-0.5	0.4
Core inflation index[2]	_	0.0	0.6	0.7	-0.1	0.4
Unemployment rate (% of labour force)	_	4.2	4.0	3.8	7.5	6.6
General government financial balance (% of GDP)	_	-1.1	-3.6	-4.0	-11.1	-8.4
General government gross debt (% of GDP)	_	60.5	60.9	61.7	76.2	80.1
Current account balance (% of GDP)	_	2.3	2.6	3.5	3.4	3.4

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138112

Economic activity has slumped

During the peak of the lockdown from end-March to mid-April, around a third of the economy was shut down. Business and consumer confidence plunged and real GDP contracted by close to 2% in the first quarter of 2020, driven by a sharp fall in domestic demand. Nominal goods exports declined by about a quarter year-on-year in April, while visitor arrivals from abroad almost halted. Data from credit card purchases suggest a relatively quick rebound in consumption to close to pre-crisis levels by end-May in areas where the restrictions have been lifted early. However, in other sectors, such as tourism, restaurants and leisure activities, expenditure remains depressed. Unemployment claims have surged to more than a million in April, or about a quarter of the total workforce. The large majority of these new claims (close to 90%) are from furloughed employees, who may return to their workplaces once the economy recovers. However, at least part of temporary lay-offs are likely to become permanent given the severity of the crisis.

Government support is substantial

The government and the central bank have taken a wide range of measures to cushion income losses for the most vulnerable people and firms, provide liquidity to banks and the business sector, and support the recovery. The government's aid package includes spending and revenue measures amounting to around 4.5% of GDP together with liquidity measures, such as loan guarantees and tax payment deferrals, of around 2.5% of GDP. The main measures include broadened eligibility to unemployment benefits (for

example for furloughed workers), grants to firms to rehire furloughed workers, direct payments to vulnerable groups such as the elderly, families with children and the self-employed, as well as a temporary reduction in property taxes and subsidies to small firms to cover fixed costs. Furthermore, the Bank of Israel launched a programme to purchase government bonds (up to 3.5% of GDP), lowered the policy rate from 0.25% to 0.1%, and established a credit facility for SMEs via banks. It also injected liquidity, including foreign exchange liquidity, and reduced the capital adequacy ratio for banks by one percentage point.

A gradual recovery could be delayed by a second wave of infections

The projections assume a continuing reopening of the economy from the end of April 2020 in the single-hit scenario, and a second outbreak of infections in autumn in the double-hit scenario. In both scenarios, domestic demand will pick up gradually, supported by government's measures to limit income losses. However, high uncertainty will weigh on the recovery, in particular of investment. Unemployment, after increasing strongly, will fall only slowly and remain above the pre-crisis level at the end of 2021. Weakness of global demand will hold back export growth. In the double-hit scenario, the negative effects on activity will be more severe and persistent, due to a higher number of insolvencies and longer unemployment spells. The general government budget deficit is set to increase sharply from an already elevated level of around 4% of GDP before the crisis, but will narrow in 2021 thanks to a rebound in tax revenues and the termination of temporary support measures. Heightened geopolitical tensions are a downside risk to the outlook.

Additional policy action may be needed to support the economy

Depending on the speed of the recovery, some of the government's temporary income support measures may have to be prolonged, especially if a second wave of infections requires renewed shutdowns. State guarantees for loan losses are relatively low compared to other OECD countries and could be expanded, especially for small firms to support their liquidity. The government plans to strengthen the recovery *inter alia* by accelerating infrastructure investment projects, which is welcome. This should be complemented by stepping up active labour market policies, such as retraining and job search support, to help those most at risk of permanently losing their jobs and facilitate efficient labour reallocation from sectors facing extended weak demand. Efforts to improve the skills outcomes of groups with low labour market attachment should also be continued. The relatively low level of public debt prior to the crisis provides some fiscal space. If necessary, financial conditions could be further relaxed by expanding the central bank's asset purchase programme and by further easing of prudential measures.

Italy

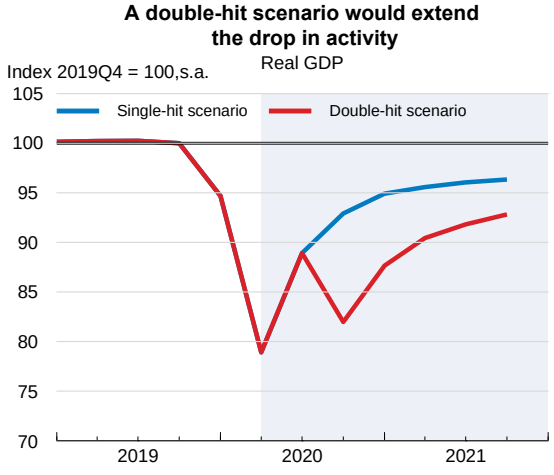
GDP is projected to fall by 14% in 2020 before recovering by 5.3% in 2021 if there is another virus outbreak later this year (the double-hit scenario). If further outbreaks are avoided (the single-hit scenario), GDP is projected to fall by 11.3% in 2020 and to recover by 7.7% in 2021. While Italy's industrial production may restart quickly as confinement measures are lifted, tourism and many consumer-related services are projected to recover more gradually, weighing on demand. The COVID-19 outbreak and containment measures will leave output lower at the end of 2021 in both scenarios than at the start of the crisis and will reverse the gains in employment of recent years.

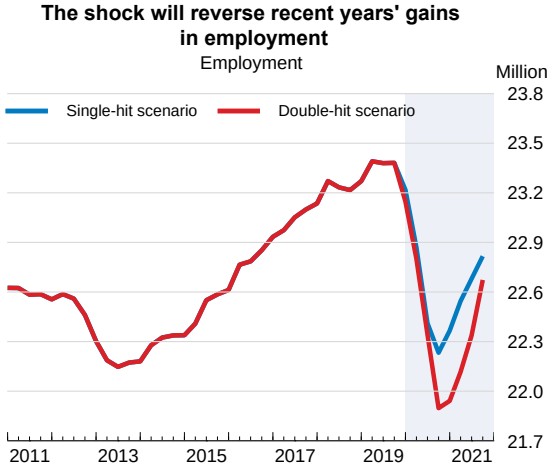
The government is supporting workers' incomes and demand through transfers and short-time work schemes, and boosting firms' liquidity by guaranteeing loans, deferring tax payments and offering tax credits. This is necessary to cushion the impact of the crisis, but, along with the fall in GDP, it implies a sharp increase in public debt ratios from already high levels, underlining the importance of placing the economy on a path of sustained growth. For sectors suffering large losses in demand, such as tourism, policy will need to help firms and workers to upgrade their operations and skills and to innovate.

COVID-19 cases grew quickly but were mostly in the northern regions

The COVID-19 pandemic started in northern Italy earlier than in most other OECD countries. Daily new infections peaked on 21 March, with most infections and deaths occurring in the northern regions of Lombardy, Piedmont and Emilia-Romagna. At the height of the outbreak in early April, a large number of patients were in hospitals, including over four thousand in intensive care, temporarily overwhelming the otherwise effective health system in the most affected regions. Italy's health system is relatively well-resourced and ensures egalitarian access to care. It has doubled the number of intensive care beds since the start of the health crisis.

Italy 1





Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934139594

Italy: Demand, output and prices (double-hit scenario)

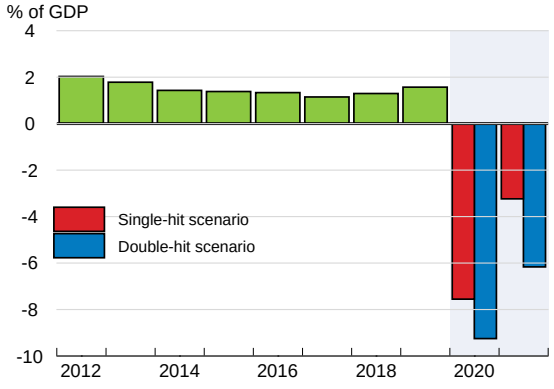
Italy: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	1 696.5	1.7	0.7	0.3	-14.0	5.3
Private consumption	1 019.5	1.5	0.9	0.4	-13.3	6.8
Government consumption	322.6	-0.1	0.1	-0.4	0.5	0.4
Gross fixed capital formation	291.3	3.4	2.9	1.4	-23.4	5.6
Final domestic demand	1 633.5	1.5	1.1	0.4	-12.5	5.1
Stockbuilding[1]	8.0	0.2	-0.1	-0.7	-1.2	-0.3
Total domestic demand	1 641.5	1.7	1.0	-0.2	-13.7	5.0
Exports of goods and services	496.7	6.0	1.7	1.4	-17.8	7.7
Imports of goods and services	441.7	6.5	2.8	-0.2	-17.2	6.8
Net exports[1]	55.0	0.1	-0.3	0.5	-0.7	0.5
Memorandum items						
GDP deflator	_	0.7	0.9	0.9	0.5	0.0
Harmonised index of consumer prices	_	1.3	1.2	0.6	-0.2	-0.1
Harmonised index of core inflation[2]	_	0.8	0.6	0.5	0.2	0.0
Unemployment rate (% of labour force)	_	11.3	10.6	9.9	10.7	11.9
General government financial balance (% of GDP)	_	-2.4	-2.2	-1.6	-12.8	-9.7
General government gross debt (% of GDP)	_	153.0	148.3	156.2	194.7	191.8
General government debt, Maastricht definition (% of GDP)	_	134.0	134.8	134.8	169.9	165.5
Current account balance (% of GDP)	_	2.6	2.5	3.0	2.7	2.8

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 107 database.

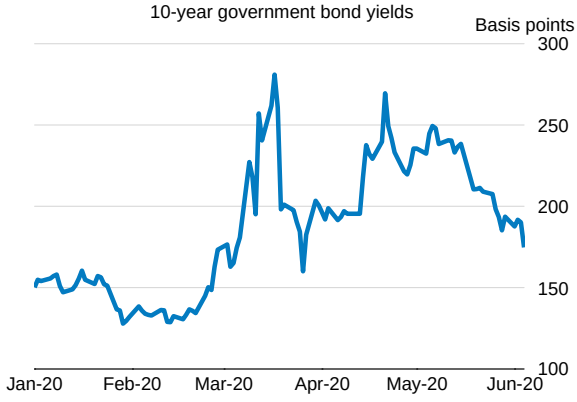
StatLink https://doi.org/10.1787/888934138131

Italy 2

The drop in activity will shift the primary budget balance into deficit
General government primary budget balance



Bond spreads widened as the scale of the fiscal shock became clear
Difference between Italian and German 10-year government bond yields



Source: OECD Economic Outlook 107 database; and Refinitiv.

StatLink https://doi.org/10.1787/888934139613

Italy: Demand, output and prices (single-hit scenario)

Italy: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	1 696.5	1.7	0.7	0.3	-11.3	7.7
Private consumption	1 019.5	1.5	0.9	0.4	-10.5	9.0
Government consumption	322.6	-0.1	0.1	-0.4	0.4	0.2
Gross fixed capital formation	291.3	3.4	2.9	1.4	-18.8	12.7
Final domestic demand	1 633.5	1.5	1.1	0.4	-9.9	7.7
Stockbuilding[1]	8.0	0.2	-0.1	-0.7	-1.0	-0.4
Total domestic demand	1 641.5	1.7	1.0	-0.2	-10.9	7.4
Exports of goods and services	496.7	6.0	1.7	1.4	-14.4	12.0
Imports of goods and services	441.7	6.5	2.8	-0.2	-13.6	11.5
Net exports[1]	55.0	0.1	-0.3	0.5	-0.7	0.5
Memorandum items						
GDP deflator	_	0.7	0.9	0.9	0.6	0.1
Harmonised index of consumer prices	_	1.3	1.2	0.6	-0.1	0.1
Harmonised index of core inflation[2]	_	0.8	0.6	0.5	0.2	0.1
Unemployment rate (% of labour force)	_	11.3	10.6	9.9	10.1	11.7
General government financial balance (% of GDP)	_	-2.4	-2.2	-1.6	-11.2	-6.8
General government gross debt (% of GDP)	_	153.0	148.3	156.2	181.3	176.3
General government debt, Maastricht definition (% of GDP)	_	134.0	134.8	134.8	158.2	152.2
Current account balance (% of GDP)	_	2.6	2.5	3.0	2.7	2.8

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138150

Italy responded quickly to the outbreak. It suspended direct flights from China from 27 January and declared a state of emergency on 31 January. The day after the initial clusters were identified, the authorities closed access and limited movements in the affected towns. As infections grew, the government imposed broader movement restrictions, banned events, closed schools and universities and non-essential service businesses – first across much of northern Italy and then nation-wide. At the end of April, Italy started to relax restrictions gradually. Construction and industries were allowed to restart production and movement restrictions were loosened, while distancing and sanitary protocols continued. Restaurants, bars and other services and facilities progressively reopened through May, at varying rates across regions depending on their epidemiological situation, and at the start of June Italy lifted restrictions on visitors from other European countries.

Confinement measures temporarily halted much of industry and restricted tourism

GDP fell by 5.3% in the first quarter of 2020, reflecting the effects of the increasing restrictions on consumer demand, investment and exports during March. The strictest confinement measures from late March to late April halted activity in about half of all businesses, which generate 53% of industrial value-added and 64% of Italy's exports. Despite the enhancement of short-time work schemes and the suspension (until mid-August) of businesses' ability to dismiss workers for economic reasons, employment fell by 1.2% between March and April 2020. Financial asset prices fell sharply in late February and early March as the extent of the crisis became clear. The Milan stock market index fell 30% below its mid-February peak, with bank shares plunging 45%, and government bond spreads widened.

Policy packages are supporting incomes, liquidity and access to finance

The government has announced three response packages with a total budget impact of EUR 75 billion (4.2% of 2019 GDP). The packages expand the health and civil response system's capacity by funding 20 thousand additional workers and providing EUR 6.4 billion in extra funding. To support businesses' liquidity, they defer and cut some tax rates, defer tax and contribution payments to later in 2020, guarantee up to EUR 530 billion in borrowing by businesses, and provide targeted tax credits such as for rental costs. These measures complement those of the ECB to reduce funding costs and ensure banks' access to liquidity. The packages support incomes and employment by extending short-time work schemes, providing allowances to heavily impacted categories of self-employed workers, a last-resort safety net, and support for childcare, and by financing municipalities' emergency support for the most vulnerable households. The government is preparing an additional package to help the recovery in public and private investment, including by simplifying administrative processes.

Industry can recover quickly but an extended outbreak will prolong losses for services

Industrial, construction and some service production restarted quickly as restrictions were lifted from late April. However, continued movement restrictions and sanitary measures, together with weak confidence and demand for exports are likely to slow the recovery in a single-hit scenario. In the double-hit scenario, the renewed containment measures are projected to lead to a further drop in exports and consumption, leading to prolonged weakness in investment. While restrictions on international travel are assumed to be lifted progressively from early June, the 2020 summer tourist season is likely to be very weak, despite efforts to support domestic tourism; this will be prolonged through 2021 in the double-hit scenario. Employment is slated to fall as short-term contracts are not renewed and once the government's prohibition on dismissals expires in mid-August. In the single-hit scenario, the fall in jobs would be limited as the prospects of a recovery lead firms to retain many staff. Widespread dismissals are projected in the double-hit case. Prices are likely to be flat as the spare capacity in the economy offsets the disruption from the sanitary measures and movement restrictions. The recovery, combined with the government's support measures and loan guarantees, may avoid widespread insolvencies among Italy's many small enterprises. In the double-hit scenario, pressures on firms and households' balance sheets and insolvencies will increase, slowing the recovery. Following the smaller-than-projected budget deficit of 1.6% of GDP in 2019, the deficit is projected to widen in 2020 to 11.2% of GDP in the single-hit scenario, before narrowing in 2021 as activity and revenues recover. Fiscal support and the budget deficit are projected to be greater in the double-hit scenario due to additional support measures and continued low revenues. Government debt ratios are projected to increase in 2020 to reach 158% of GDP in the single-hit scenario and to 170% of GDP in the double-hit scenario (Maastricht definition), before declining in 2021 as nominal GDP recovers.

Beyond the short-term risks linked to the pandemic crisis, the main risk relates to the strength and sustainability of the recovery. Italy's tourism sector is especially vulnerable to the prolonged crisis of the double-hit scenario, as tourism risks being weaker into the medium term and small enterprises dominate the sector – 52 thousand in accommodation alone. Manufacturers may become more exposed if the downturn lengthens, as many firms specialise in high value-added and higher margin consumer and capital goods that may be more sensitive to lower global incomes and equipment investment. Italy's firms and banks entered this crisis in better health than over the past decade, but the crisis heightens remaining financial fragilities, such as banks' exposure to government bond prices. While the government's extensive guarantees limit the risk of insolvencies and non-performing loans in the single-hit scenario, these risks are more significant in the double-hit scenario and they would add to the public sector's liabilities. Ending the fiscal support prematurely would risk extending the bankruptcies and lost output caused by the crisis, especially in a double-hit scenario. Broadening fiscal support to ineffective measures, or for longer than

necessary, would further raise the public debt burden and the challenge it poses to the economy without sustainably supporting activity.

Enabling investment and new opportunities would help restart the economy

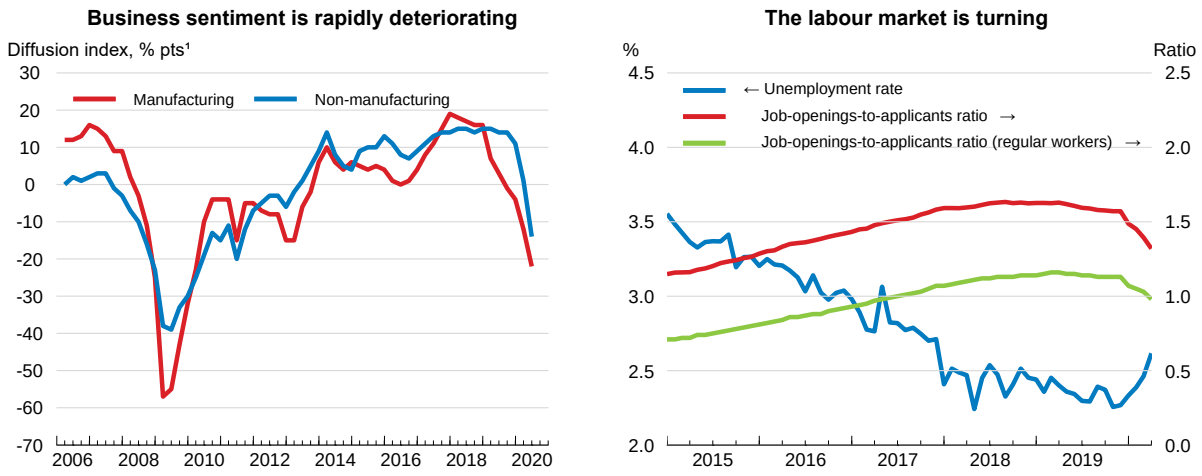
The COVD-19 crisis is a setback in efforts to achieve stronger and more inclusive growth. The emergency measures to deal with the economic fallout of the crisis are justified, and these should further complement and renew efforts towards pursuing an ambitious structural reform programme. Continuing to extend support in sectors where demand is likely to return quickly can avoid unemployment and accelerate the recovery. Businesses and workers likely to face extended weak demand would benefit from support to upgrade, invest and innovate, and to shift to sectors with better prospects, through strengthening active labour market policies, particularly retraining schemes, and by facilitating investment. Streamlining and improving access to income support programmes, such as the Citizen's Income, would prevent large increases in poverty and support demand in the recovery. If non-performing loans start rising, the government should stand ready to reinforce the bank asset support programme (GACS). Implementing the new bankruptcy law would help by ensuring that viable companies are restructured rather than liquidated. Pursuing the government's plans to develop a multi-year programme to reduce administrative complexity, improve the legal system's effectiveness and reduce investment and employment costs would support new businesses, productivity and jobs. Supporting the renewal of the ageing infrastructure and the transition to lower carbon activities would sustain the recovery and improve well-being. Accelerating the adoption of digital technologies, as demonstrated by the rapid move during the crisis to 'smart working' and online services, would raise competitiveness.

Japan

In 2020, Japan is on course to experience its deepest recession of the post-war era, with at best a modest recovery in 2021. Economic activity has plummeted in the first half of 2020, reflecting the impact of incrementally stepped-up confinement measures and lower external demand. Large-scale fiscal support and the gradual lifting of the confinement measures will help to partially reverse the collapse but, in the event of a second outbreak later in the year, re-confinement would impart another economic blow. GDP is expected to fall by 6% in 2020 in the single-hit scenario and by 7¼ per cent in the double-hit scenario. Headline inflation is projected to turn negative in 2020, reflecting considerable economic slack and a fall in energy prices.

The government has launched a range of measures to support households and protect businesses and employment, including cash handouts to households, increased subsidies for special paid leave, rent subsidies, deferrals of tax and social insurance premiums, and emergency loans and credit guarantees. While reopening of the economy should proceed step by step, following effective safety and distancing protocols, it may require extending some of the temporary measures, focusing on those facing prolonged economic hardship.

Japan 1



1. The diffusion indices show the share of firms responding they found business conditions good minus the share of firms that reported bad business conditions. The numbers for 2020Q2 are based on forecasts by firms.
Source: Ministry of Internal Affairs and Communications; Ministry of Health, Labour and Welfare; and Bank of Japan.

StatLink https://doi.org/10.1787/888934139632

Japan: Demand, output and prices (double-hit scenario)

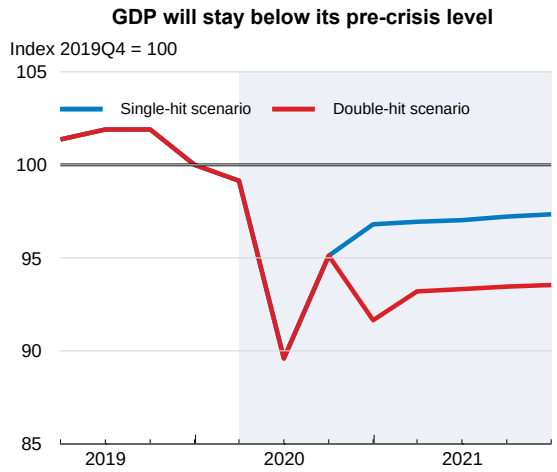
Japan: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices YEN trillion	Percentage changes, volume (2011 prices)				
GDP at market prices	535.5	2.2	0.3	0.7	-7.3	-0.5
Private consumption	298.2	1.3	0.0	0.1	-11.5	2.5
Government consumption	106.6	0.2	0.9	1.9	6.5	-2.7
Gross fixed capital formation	125.0	3.0	0.6	1.3	-7.0	-4.2
Final domestic demand	529.8	1.5	0.3	0.8	-6.7	-0.3
Stockbuilding[1]	0.5	0.1	0.0	0.0	-0.2	0.0
Total domestic demand	530.2	1.6	0.3	0.8	-6.9	-0.3
Exports of goods and services	87.1	6.8	3.5	-1.6	-12.7	1.3
Imports of goods and services	81.8	3.4	3.7	-0.7	-10.2	2.6
Net exports[1]	5.3	0.6	0.0	-0.2	-0.5	-0.2
Memorandum items						
GDP deflator	_	-0.2	-0.1	0.6	0.3	-0.7
Consumer price index[2]	_	0.5	1.0	0.5	-0.3	-0.5
Core consumer price index[3]	_	-0.1	0.2	0.5	-0.1	-0.5
Unemployment rate (% of labour force)	_	2.8	2.4	2.4	3.4	3.9
General government financial balance (% of GDP)	_	-2.9	-2.3	-2.6	-12.9	-7.4
General government gross debt (% of GDP)	_	222.2	224.2	225.3	247.6	256.9
Current account balance (% of GDP)	_	4.2	3.6	3.6	3.7	3.5

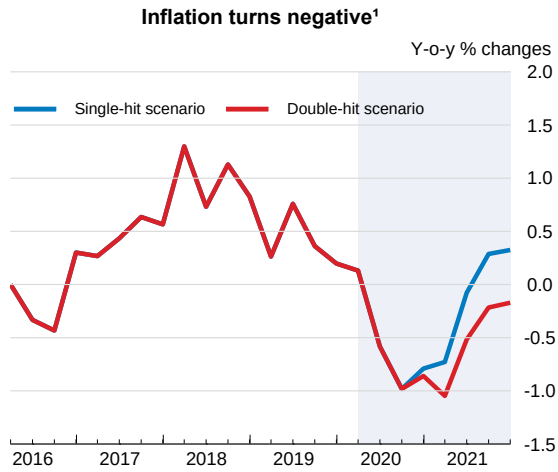
1. Contributions to changes in real GDP, actual amount in the first column.
2. Calculated as the sum of the seasonally adjusted quarterly indices for each year.
3. Consumer price index excluding food and energy.

Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138169

Japan 2





1. Headline inflation, excluding the effect of the October 2019 consumption tax hike based on the government estimate.

Source: OECD Economic Outlook 107 Database; and Ministry of Internal Affairs and Communications.

StatLink https://doi.org/10.1787/888934139651

Japan: Demand, output and prices (single-hit scenario)

Japan: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices YEN trillion	Percentage changes, volume (2011 prices)				
GDP at market prices	535.5	2.2	0.3	0.7	-6.0	2.1
Private consumption	298.2	1.3	0.0	0.1	-9.1	4.9
Government consumption	106.6	0.2	0.9	1.9	5.4	-1.9
Gross fixed capital formation	125.0	3.0	0.6	1.3	-6.5	-0.7
Final domestic demand	529.8	1.5	0.3	0.8	-5.5	2.0
Stockbuilding[1]	0.5	0.1	0.0	0.0	-0.2	0.0
Total domestic demand	530.2	1.6	0.3	0.8	-5.7	2.0
Exports of goods and services	87.1	6.8	3.5	-1.6	-10.5	4.8
Imports of goods and services	81.8	3.4	3.7	-0.7	-8.4	4.7
Net exports[1]	5.3	0.6	0.0	-0.2	-0.4	0.0
Memorandum items						
GDP deflator	_	-0.2	-0.1	0.6	0.4	-0.2
Consumer price index[2]	_	0.5	1.0	0.5	-0.3	-0.1
Core consumer price index[3]	_	-0.1	0.2	0.5	-0.1	-0.1
Unemployment rate (% of labour force)	_	2.8	2.4	2.4	3.2	3.2
General government financial balance (% of GDP)	_	-2.9	-2.3	-2.6	-11.6	-5.9
General government gross debt (% of GDP)	_	222.2	224.2	225.3	244.4	247.7
Current account balance (% of GDP)	_	4.2	3.6	3.6	3.8	3.7

1. Contributions to changes in real GDP, actual amount in the first column.
2. Calculated as the sum of the seasonally adjusted quarterly indices for each year.
3. Consumer price index excluding food and energy.

Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138188

Soft confinement measures have been stepped up

Japan's first COVID-19 case was confirmed on 16 January 2020, but the daily number of confirmed cases started to rise significantly only in late March, with community infections, and accelerated in April. It has since shown signs of peaking. The death toll has been very limited so far despite the very high share of the elderly population.

Confinement measures have been largely on a voluntary basis but have been stepped up over time. The government asked for the cancellation of large-scale events and gatherings from late February and for the closing of all public schools except universities from early March. Following stay-at-home requests in several prefectures, a state of emergency was declared from 7 April to 6 May and then until 31 May. It first covered the seven most affected prefectures but was soon extended nationwide. It enabled prefectural governors to order school closures, restrict the use of public facilities, request non-essential businesses to close, and take forcible actions, including using private lands and buildings to build temporary hospitals. The state of emergency was lifted before schedule on 25 May, and steps have been outlined to relax the restrictions on economic activity. International travel bans have also been in place since February.

Economic activity has plummeted

The pandemic has affected most economic activities, albeit unevenly. Tourism, accommodation, restaurants and personal services including leisure activities are hardest hit, reflecting the impacts of both voluntary restraints and a *de facto* ban on inbound tourism. While sales of essential products have remained solid, those of department stores have more than halved. The Bank of Japan March Tankan

Survey showed business sentiment in the manufacturing sector at its lowest level in a decade. Despite the limited impact on unemployment so far, the job-openings-to-applicants ratio has been declining, reflecting a fall in job offers rapidly spreading across both manufacturing and non-manufacturing sectors.

The government has provided unprecedented support to the economy

In early April, the government launched a wide range of measures to support households and protect businesses and employment. Additional government spending of 4.7% of GDP is enshrined in the first FY 2020 supplementary budget to finance the measures, including cash handouts of JPY 100 thousand (around USD 1 000) to every resident as well as cash transfers to heavily affected business owners (0.4% of GDP). The government also eased the criteria for the Employment Adjustment Subsidy, which provides firms with financial support to cover the cost of special paid leaves due to temporary closures, and raised the subsidy between April and June for those that do not dismiss workers. In late May, the government announced a second FY 2020 supplementary budget of 5.8% of GDP, with measures including additional cash benefits targeted at single-parent households, a rent subsidy to help heavily affected firms, and further enhancement of the subsidy for special paid leaves. Together with off-budget measures, including deferrals of tax and social insurance premiums and emergency loans and credit guarantees, total support amounts to an unprecedented 42.2% of GDP. The supplementary budgets not only provide a range of subsidies to accelerate growth in the recovery stage, including through promoting tourism, digital transformation and supply-chain relocations, but also set aside a contingency fund of 2.1% of GDP. The double-hit scenario assumes that the contingency fund will be fully utilised to cope with a second outbreak.

The Bank of Japan has sought to ensure adequate financing of the economy to maintain financial system stability through the enhanced purchases of various assets, including exchange traded funds, commercial paper and corporate bonds, and the introduction of a new operation to provide loans against private debt as collateral at a 0% interest rate. It also decided to purchase enough Japanese government bonds (JGBs) to keep the 10-year JGB yields at around 0%. The Financial Services Agency reaffirmed that banks can draw on their regulatory capital and liquidity buffers as needed to support lenders affected by the pandemic. The projections assume that this highly accommodative policy stance will be unchanged through 2021.

The recovery will be moderate

With the stay-at-home requests and closure of non-essential businesses under the state of emergency implemented in full between mid-April and mid-May 2020, private consumption is estimated to have dropped by around a quarter during this period. Reopening of non-essential businesses, which has begun in less affected regions since late May, is assumed to continue gradually. In the double-hit scenario, voluntary restraints are assumed to be fully reinstated during October, followed by gradual easing.

GDP is estimated to have plunged in the second quarter of 2020, led by private consumption. External demand has also fallen sharply, reflecting the global recession. The double-hit scenario entails another short-term blow to the economy in late 2020. The sharp fall in demand coupled with heightened uncertainty will hold back housing and business investments as well. Consequently, GDP is projected to decline by 6% in 2020 in the single-hit scenario and by 7¼ per cent in the double-hit scenario. The subsidies for special paid leave are expected to limit the rise of unemployment but at the cost of a significant reduction of workers' earnings. Economic activity has started to pick up in late May, but slowly, as the easing of confinement measures proceeds gradually while purchasing power suffers from lower income, notwithstanding government cash handouts. The double-hit scenario assumes the phased reopening of the economy to be set back in October. As the fiscal boost is assumed to be rolled back in 2021, the recovery is projected to remain moderate and unemployment will stay at a higher level, even though private

consumption and service exports will be buoyed by the Tokyo Olympic Games, now rescheduled to summer 2021. Ample slack in the economy will see inflation turn negative. The double-hit scenario also entails more severe long-term consequences for potential growth through lower investment and lower labour force participation, particularly of women and the elderly, due to long-lasting higher unemployment.

The recovery could be stronger than projected if severe labour shortages arising from demographic change spur investment and labour force participation more than foreseen. Japan's unprecedentedly high level of public debt is projected to rise even further due to the large-scale fiscal boost. It remains a key risk: a loss of confidence in Japan's fiscal sustainability could destabilise the financial sector and the real economy, with large negative spillovers for the world economy.

A gradual reopening process may require additional policy support

The government has taken forceful measures to alleviate the negative impacts of the pandemic and to support the economy. Step-by-step reopening of economic activity should be allowed subject to safety and distancing protocols, prioritising businesses with lower risks of infections in the workplace and for customers. Appropriate implementation of the supplementary budgets will be key, as gradual reopening may require the government to extend and enhance the temporary measures with a focus on businesses and workers subject to prolonged hardships, including extended business closure. Policies in the recovery stage should promote flexible working styles through use of digital technology and help reduce renewable energy generation costs by strengthening competition in electricity markets, which can facilitate distancing and supply-chain relocations as well. While the impact on debt service of any additional fiscal costs can be mitigated by the central bank's current yield curve control policy, restoring fiscal sustainability will continue to require a detailed and concrete consolidation programme.

Korea

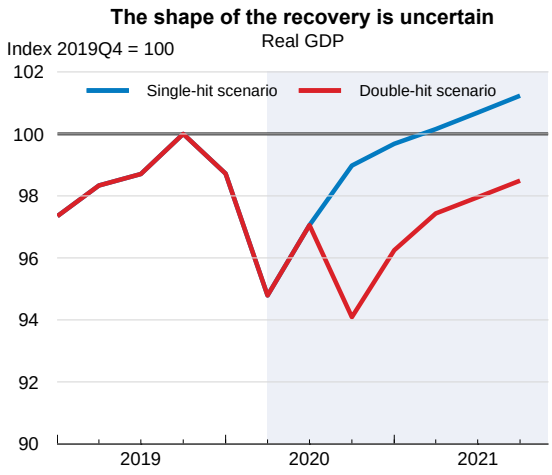
Korea was among the first countries hit by COVID-19. Due to an effective strategy to contain the spread of the virus, the government limited the damage to the domestic economy and output is shrinking less than in any other OECD country. Nevertheless, private consumption is contracting, as households exercise caution and suffer from income losses. Unemployment is rising, particularly for non-regular workers. Real GDP is projected to decline by 1.2% in 2020 in the single-hit scenario and by 2.5% in the double-hit scenario. The global recession will hold back exports and investment, especially in the event of a second global wave of infections.

The government reacted promptly to support households, SMEs and severely affected industries. Sound public finances provide fiscal space for further measures to prop up the economy if the crisis lingers. Additional income support needs to be targeted towards low-income households to keep inequalities in check and maximise its economic impact. Boosting investment in renewable energy and green technologies, along with enhanced training and upskilling, would foster a sustainable and job-rich recovery.

The spread of the virus was contained without widespread confinement

Korea's first COVID-19 virus case was confirmed on 20 January. Infections surged in the Daegu region in mid-February. However, the outbreak was rapidly contained, with the number of new cases declining sharply from early March and the number of daily deaths declining since 24 March to around zero by late April. Notwithstanding the resurgence of some local clusters of infection in May, the number of new daily infections remains very small, with very few fatalities.

Korea



Source: OECD Economic Outlook 107 database; and Statistics Korea, Monthly Service Industry Survey.

StatLink https://doi.org/10.1787/888934139670

Korea: Demand, output and prices (double-hit scenario)

Korea: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices KRW trillion	Percentage changes, volume (2015 prices)				
GDP at market prices	1 740.8	3.2	2.9	2.0	-2.5	1.4
Private consumption	834.8	2.8	3.2	1.7	-5.6	2.9
Government consumption	265.3	3.9	5.3	6.6	7.8	4.6
Gross fixed capital formation	517.3	9.8	-2.2	-2.8	-1.2	-0.8
Final domestic demand	1 617.4	5.2	1.7	1.1	-1.8	2.0
Stockbuilding[1]	7.4	0.4	0.3	0.1	-0.3	0.0
Total domestic demand	1 624.8	5.6	2.0	1.1	-2.0	2.0
Exports of goods and services	698.6	2.5	4.0	1.7	-4.5	-0.1
Imports of goods and services	582.7	8.9	1.7	-0.6	-3.4	1.6
Net exports[1]	116.0	-2.0	1.0	1.0	-0.6	-0.6
Memorandum items						
GDP deflator	_	2.2	0.5	-0.9	-0.6	0.2
Consumer price index	_	1.9	1.5	0.4	0.5	0.2
Core inflation index[2]	_	1.5	1.2	0.7	0.5	0.2
Unemployment rate (% of labour force)	_	3.7	3.9	3.8	4.6	4.7
General government financial balance (% of GDP)	_	2.7	3.0	0.9	-3.2	-3.3
General government gross debt (% of GDP)	_	40.8	39.3	38.3	41.3	44.2
Current account balance (% of GDP)	_	4.6	4.5	3.6	2.6	2.0

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138207

Widespread testing in COVID-19 clusters, including through innovative methods such as drive-through and walk-through facilities, and tracing and isolation of infected individuals allowed the spread of the disease to be contained. Additional resources were swiftly channelled to the health sector for prevention and treatment. No lockdown was imposed. However, the government recommended distancing and encouraged working from home and avoiding mass meetings. Quarantine measures for people arriving from abroad were gradually extended as the pandemic spread around the world. The start of the new school semester, initially scheduled in early March, was postponed and shifted online in mid-April.

Output is falling

GDP contracted at a seasonally-adjusted annual rate of 5% in the first three months of 2020 relative to the previous quarter, as household consumption plummeted and exports shrank. The hit was particularly severe for tourism, travel, hotels, restaurants, culture, petrochemicals, cars, shipping and shipbuilding. About 476 thousand jobs were lost in April compared to a year earlier and 1.5 million employees took temporary leave. The unemployment rate rose to 3.8% in April from 3.3% in February. Both disruptions to supply chains and shrinking demand have led to stoppages in some industries and the manufacturing purchasing managers' index in April fell to its lowest level since 2009. Export values tumbled by nearly a quarter in the same month relative to a year earlier. Headline consumer prices have been declining over the past three months and core consumer prices were only a touch above last year's level by May 2020.

Korea: Demand, output and prices (single-hit scenario)

Korea: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices KRW trillion	Percentage changes, volume (2015 prices)				
GDP at market prices	1 740.8	3.2	2.9	2.0	-1.2	3.1
Private consumption	834.8	2.8	3.2	1.7	-4.1	4.8
Government consumption	265.3	3.9	5.3	6.6	7.5	4.5
Gross fixed capital formation	517.3	9.8	-2.2	-2.8	-0.7	-0.4
Final domestic demand	1 617.4	5.2	1.7	1.1	-0.9	3.1
Stockbuilding[1]	7.4	0.4	0.3	0.1	-0.3	0.0
Total domestic demand	1 624.8	5.6	2.0	1.1	-1.1	3.1
Exports of goods and services	698.6	2.5	4.0	1.7	-2.6	3.6
Imports of goods and services	582.7	8.9	1.7	-0.6	-2.4	3.7
Net exports[1]	116.0	-2.0	1.0	1.0	-0.1	0.1
Memorandum items						
GDP deflator	_	2.2	0.5	-0.9	-0.6	0.3
Consumer price index	_	1.9	1.5	0.4	0.5	0.3
Core inflation index[2]	_	1.5	1.2	0.7	0.5	0.4
Unemployment rate (% of labour force)	_	3.7	3.9	3.8	4.5	4.4
General government financial balance (% of GDP)	_	2.7	3.0	0.9	-2.9	-2.6
General government gross debt (% of GDP)	_	40.8	39.3	38.3	39.3	43.3
Current account balance (% of GDP)	_	4.6	4.5	3.6	3.0	3.0

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138226

Wide-ranging government support is damping the shock

The government has introduced unprecedented measures to mitigate the pandemic's impact, with supplementary budgets voted or proposed totalling about 3.1% of annual GDP, of which about 63% will be debt-financed, with the remainder funded through savings on government expenditure. Adding liquidity provisions and credit guarantees raises government support to 14.3% of GDP. The supplementary budgets provide resources for the health sector, loans to SMEs, emergency support to households, assistance for severely hit industries and employment support. Relief checks of up to KRW 1 million (USD 820) are being sent to all households, in the form of coupons to spend. A government-sponsored fund of about 2% of GDP will be set up to support key industries, such as aviation, shipping, shipbuilding and automobile. The Bank of Korea cut its policy rate by 75 basis points to 0.50% in two steps, broadened the eligible collateral and counterparts for open market operations and entered a swap agreement with the US Federal Reserve, among other interventions to provide liquidity, stabilise financial markets, and encourage bank lending.

The global slump will hinder the recovery, particularly if the pandemic rebounds

The projected contraction in GDP in 2020 is considerably milder than in other OECD countries. Private consumption will pick up as distancing recommendations are eased, albeit at a moderate pace, with households exercising caution and suffering from income losses and relatively high unemployment. Industrial production will also normalise, but global supply chains will continue to experience disruptions for some time. The global recession is bound to have a major impact on Korean exports, which account for a large share of the economy, leading to weaker investment and lower employment, especially for

non-regular workers, who bear the brunt of the adjustment. However, the Korean New Deal, which is to build on digitalisation and green projects to foster economic revival and job creation, could lead to higher investment and employment than projected. The double-hit scenario entails another short-term blow to private consumption, but also more severe long-term consequences related to a longer slump in exports, which delays the recovery in investment and pushes up unemployment further.

Further stimulus could be needed to reinvigorate the economy

The government has taken appropriate measures to support the economy and alleviate hardship. Depending on the impact of the downturn on employment and businesses and the speed of the recovery, further measures may be required. Low government debt provides fiscal space, despite the already sizeable increase in public spending. Supporting households is essential given the relatively low level and incomplete coverage of unemployment insurance. While the distribution of checks to the entire population facilitates timely relief, targeting further support towards low-income households would enhance equity and boost the economy by speeding up spending. As the crisis will trigger labour reallocation, further investment in training and upskilling would bolster the employment recovery. If the crisis lingers, some temporary tax and social security deferrals and reductions will need to be prolonged and additional support for SMEs and firm restructuring may be necessary. Boosting investment in renewable energy and clean technologies would help achieve a sustainable recovery.

Latvia

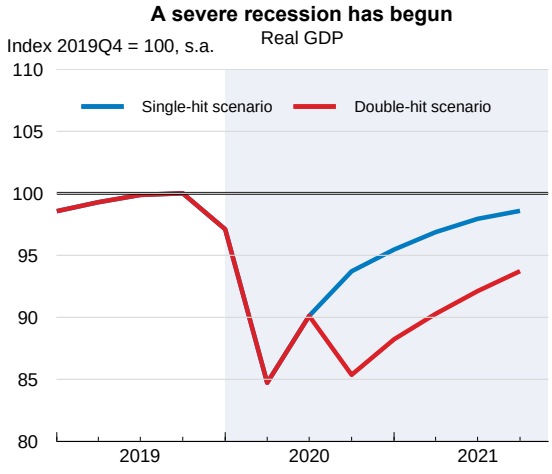
Economic growth slowed before the pandemic started and is projected to contract sharply in 2020, despite a relatively lenient lockdown. Activity will recover, but gradually, as uncertainty will remain high and activity in some service sectors will remain subdued. Domestic demand will drive the recovery, while exports will be slower to pick up due to the severe recession in Europe. Investment will drop and stay low throughout 2021, particularly should a second lockdown be necessary (the double-hit scenario). Unemployment is projected to increase and remain elevated due to a slow recovery of labour-intensive sectors. Public debt will soar but will stay low relative to other OECD countries.

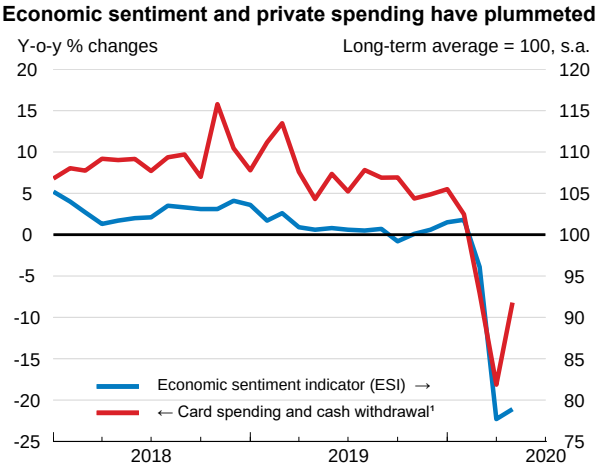
The government has quickly adopted measures to support firms' liquidity through loan guarantees and tax deferrals. Some discretionary measures have also been adopted to support employment. Further fiscal policy measures will be needed to support the recovery. Accelerating infrastructure projects and reducing the labour tax wedge on low earnings could help the labour market recover faster. Rapidly ramping up the uptake of digital technologies, including through training to improve digital skills, could help minimise the disruption from a second outbreak.

An early but less stringent lockdown

The COVID-19 pandemic reached Latvia in early March. Thanks to low population density and early containment measures, the spread of the virus was slow and did not overwhelm the health system. However, the health system is under-resourced and effectiveness is low, increasing the potential adverse impact of a more severe second outbreak.

Latvia





1. Monthly average of weekly year-on-year percentage change. Data for last week of 2019 are not taken into account.
Source: OECD Economic Outlook 107 database; European Commission; and Swedbank.

StatLink https://doi.org/10.1787/888934139689

Latvia: Demand, output and prices (double-hit scenario)

Latvia: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	25.1	3.8	4.3	2.2	-10.2	2.0
Private consumption	15.1	3.1	4.2	2.9	-11.8	6.3
Government consumption	4.6	3.3	4.0	2.6	5.0	2.2
Gross fixed capital formation	4.9	11.3	15.8	3.0	-12.8	-1.4
Final domestic demand	24.5	4.8	6.6	2.9	-9.0	3.7
Stockbuilding[1]	0.3	0.4	-0.2	-0.2	-0.5	0.0
Total domestic demand	24.8	5.0	5.9	2.5	-9.5	3.8
Exports of goods and services	15.1	6.4	4.0	1.9	-10.3	-0.3
Imports of goods and services	14.9	8.4	6.4	2.3	-9.3	2.8
Net exports[1]	0.2	-1.1	-1.5	-0.2	-0.6	-1.8
Memorandum items						
GDP deflator	_	3.0	4.0	2.6	1.9	0.7
Harmonised index of consumer prices	_	2.9	2.6	2.7	0.9	0.4
Harmonised index of core inflation[2]	_	1.7	1.9	2.2	1.3	0.4
Unemployment rate (% of labour force)	_	8.7	7.5	6.3	9.6	11.7
General government financial balance (% of GDP)	_	-0.8	-0.8	-0.2	-7.0	-6.9
General government gross debt (% of GDP)	_	45.9	44.3	44.0	52.9	57.9
General government debt, Maastricht definition (% of GDP)	_	39.3	37.2	36.9	45.7	50.8
Current account balance (% of GDP)	_	1.0	-0.7	-0.5	1.9	0.7

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138245

The government imposed containment measures after declaring a state of emergency on 12 March, shutting down of most international passenger services, closing schools and banning public gathering of more than two people from 29 March. An easing of lockdown measures began on 12 May, allowing gatherings of up to 25 people and the opening of shopping centres on weekends. The stringency of the lockdown was lower than in most OECD countries: individual mobility was not restricted to certain purposes and restaurants and shopping centres were able to open on weekdays if they followed protection measures. Mobility data indicated higher mobility compared to most European countries, and midweek traffic congestion in Riga has declined considerably less than in other cities.

Economic activity plunged, after growth had already slowed

GDP fell by 2.9% in the first quarter of 2020 even though the lockdown affected the economy only from mid-March. Output in the transportation sector fell sharply due to both the containment measures as well as a continued fall in transit cargo. Following distancing measures, private consumption fell dramatically. Card transactions and cash withdrawals plummeted from mid-March. Air transportation and hotel activity almost entirely ceased, and restaurant and clothing store turnover was down by more than a half. Most activities related to recreation, training, culture and sports remain suspended. Registered unemployment increased from 6.3% in February to 8% in April, and inflation dropped from 2.3% to 0% as fuel prices fell. In mid-May, about 4.5% of the labour force was on furlough, receiving state benefits. Economic sentiment has plummeted, but remains above its 2009 level.

Latvia: Demand, output and prices (single-hit scenario)

Latvia: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	25.1	3.8	4.3	2.2	-8.1	6.3
Private consumption	15.1	3.1	4.2	2.9	-9.2	9.6
Government consumption	4.6	3.3	4.0	2.6	4.6	2.0
Gross fixed capital formation	4.9	11.3	15.8	3.0	-10.6	4.8
Final domestic demand	24.5	4.8	6.6	2.9	-7.1	7.0
Stockbuilding[1]	0.3	0.4	-0.2	-0.2	-0.5	0.0
Total domestic demand	24.8	5.0	5.9	2.5	-7.5	7.1
Exports of goods and services	15.1	6.4	4.0	1.9	-8.3	4.6
Imports of goods and services	14.9	8.4	6.4	2.3	-7.4	6.0
Net exports[1]	0.2	-1.1	-1.5	-0.2	-0.5	-0.7
Memorandum items						
GDP deflator	_	3.0	4.0	2.6	2.0	1.3
Harmonised index of consumer prices	_	2.9	2.6	2.7	1.0	1.3
Harmonised index of core inflation[2]	_	1.7	1.9	2.2	1.3	1.3
Unemployment rate (% of labour force)	_	8.7	7.5	6.3	9.2	9.3
General government financial balance (% of GDP)	_	-0.8	-0.8	-0.2	-5.9	-3.5
General government gross debt (% of GDP)	_	45.9	44.3	44.0	51.4	52.4
General government debt, Maastricht definition (% of GDP)	_	39.3	37.2	36.9	44.3	45.2
Current account balance (% of GDP)	_	1.0	-0.7	-0.5	1.9	1.3

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138264

The government acted quickly to inject liquidity

The government took significant steps to support firms' cash-flow through loan guarantees and tax deferrals, totalling up to 3.7% of GDP. These liquidity measures aim to reduce bankruptcies and systemic risks, and to support long-run growth. Additionally, the government has taken discretionary, within budget, fiscal stimulus measures of about ½ per cent of GDP. Most of this spending is on health and compensating workers' salaries in companies hit hard by the crisis. The impact of the discretionary fiscal stimulus on GDP growth is limited compared with the scale of contraction in activity. Accommodative ECB monetary policy is mitigating the recession through low borrowing costs.

Uncertainty will hurt investment

The single-hit scenario is based on an eight-week lockdown starting mid-March. The impact of the lockdown on a few sectors will last longer, as some restrictions on travel and gathering in public will remain. An additional eight-week lockdown in the fourth quarter of 2020 is assumed in the double-hit scenario. A decrease of about 16% in GDP is projected during the lockdown period due to the shutdown of sectors affected directly by the containment measures. In the double-hit scenario, the decline in GDP associated with a second lockdown is assumed to be around two-thirds of that in the first lockdown. This scenario assumes additional government support measures, proportional to the decrease in economic activity.

A severe recession is projected in both scenarios. In 2020, GDP is projected to decrease by 10.2% in the double-hit scenario, and 8.1% in the single-hit scenario. Domestic demand will lead the recovery. The pick-up in exports will be slower, due to the prolonged weak demand in major European countries. Extreme uncertainty will curtail investment. By the end of 2021, business investment is projected to be about 12% lower than prior to the crisis in the double-hit scenario and by 5% in the single-hit scenario. Unemployment will rise sharply and recovery will be slow, due to a higher likelihood of bankruptcies, a fall in demand and a slow recovery of labour-intensive sectors such as tourism. Low, but positive, inflation is projected with a gradual increase in 2021 after wages resume their growth and the fall in commodity prices ends. A credit crunch is a significant risk, particularly among SMEs, as a high share of firms have difficulties in accessing credit due to insufficient collateral and business history, though government action to inject liquidity and relieve cash-flow pressures is reducing the likelihood of this occurring. A faster recovery in the other Baltic countries, thanks to lower infection rates, could support higher growth.

Ramping up digital uptake would reduce disruption from a second outbreak

Accelerating sustainable infrastructure projects and reducing the labour tax wedge on low earnings could help the labour market to recover faster and ensure that future growth will be greener. Ramping up the use of digital technologies could help to minimise the negative impact from a second outbreak of the pandemic. The number of Latvian firms with a website is low, and the share of firm turnover generated from web sales is amongst the lowest in the European Union. Training to improve digital skills (in the public and private sector) as well as enhancing e-government would help to accelerate the digital transformation.

Lithuania

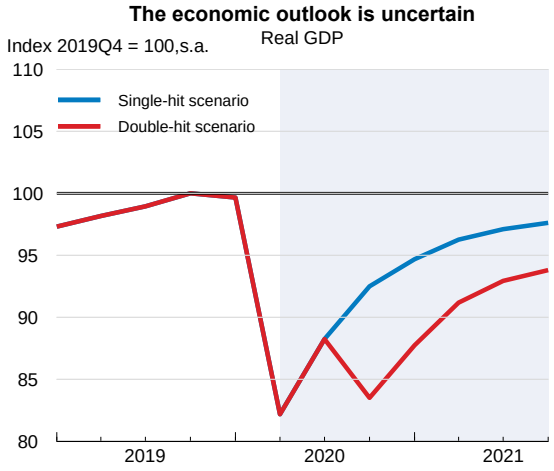
The economy is projected to contract sharply as the COVID-19 pandemic drags down both domestic and external demand. GDP growth is expected to shrink by 10.4% in 2020 in a scenario that assumes that a second virus outbreak occurs later in the year and by 8.1% in a single-hit scenario. GDP growth will rebound as confidence and world trade pick up, boosting consumption and investment. Unemployment will rise, but despite some gradual decline, it will remain above the pre-crisis level.

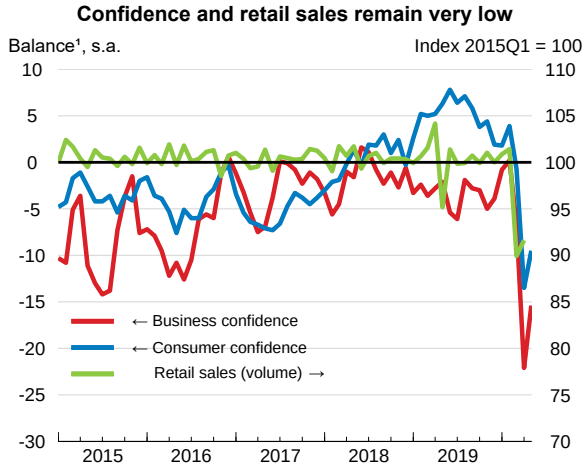
The policy response to the COVID-19 pandemic has been swift and comprehensive, comprising both fiscal and financial measures. Further strengthening of targeted social benefits and effective active labour market programmes, such as training, would support the recovery and prevent increases in poverty. Additional support for firms facing liquidity problems may also be required if the crisis is deeper than expected. Efficient insolvency procedures that facilitate enterprise restructuring are important. Ensuring that the health system has sufficient resources to deal with a potential second outbreak of the pandemic is another key priority.

A range of containment measures were launched at an early stage

The COVID-19 pandemic reached Lithuania in February 2020. Active cases peaked in April and the fatality rate remains low. Vilnius and Klaipeda were the most affected regions. The health system has so far had sufficient capacity in terms of curative and acute hospital beds to meet the increased needs, and hospital and outpatient services are widely accessible.

Lithuania





1. Balance refers to the (seasonally adjusted) percentage point difference between positive and negative responses from respondents to the European Commission economic sentiment survey.
Source: OECD Economic Outlook 107 database; and OECD Main Economic Indicators.

StatLink https://doi.org/10.1787/888934139708

Lithuania: Demand, output and prices (double-hit scenario)

Lithuania: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	38.9	4.2	3.6	3.9	-10.4	3.4
Private consumption	24.5	3.5	3.7	3.2	-10.6	4.5
Government consumption	6.6	-0.3	0.5	0.7	2.9	1.1
Gross fixed capital formation	7.7	8.2	8.4	7.4	-11.8	4.2
Final domestic demand	38.9	3.7	4.1	3.6	-8.6	3.7
Stockbuilding[1]	- 0.3	-1.0	-0.8	-2.5	-0.5	0.0
Total domestic demand	38.6	2.8	3.4	1.2	-9.3	4.0
Exports of goods and services	26.3	13.6	6.3	9.6	-13.4	4.5
Imports of goods and services	26.0	11.5	6.0	6.0	-12.6	5.4
Net exports[1]	0.3	1.5	0.4	2.8	-1.4	-0.3
Memorandum items						
GDP deflator	_	4.3	3.3	3.0	1.1	0.9
Harmonised index of consumer prices	_	3.7	2.5	2.2	0.8	0.7
Harmonised index of core inflation[2]	_	2.6	1.9	2.3	1.3	0.8
Unemployment rate (% of labour force)	_	7.1	6.1	6.3	9.5	8.7
General government financial balance (% of GDP)	_	0.5	0.6	0.3	-11.3	-5.4
General government gross debt (% of GDP)	_	47.0	40.9	44.9	57.6	62.0
General government debt, Maastricht definition (% of GDP)	_	39.1	33.8	36.2	48.9	53.2
Current account balance (% of GDP)	_	0.4	0.2	4.2	3.4	3.6

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138283

The containment measures included a nationwide quarantine that commenced in mid-March, travel bans and border closures, the shutdown of non-essential shops, the prohibition of public events, and the closure of education institutions. Measures to cope with the health emergency were also introduced, including the operational re-organisation of patient flows, material and human resources, and increased testing. Moreover, a fiscal package in response to the crisis allocated EUR 0.5 billion (1% of GDP) to the healthcare sector for the acquisition of equipment as well the financing of additional costs, including bonuses to healthcare workers, and the provision of subsidiary social guarantees for employees infected by a contagious disease. A gradual easing of the confinement measures began in mid-April.

Economic growth has been hit by the pandemic

The outbreak of the pandemic triggered a sharp decline in activity as the confinement measures and restrictions on travel and mobility disrupted economic activity, lowered household spending and heightened uncertainty. Collapsing demand in trading partners reinforced the slowdown. Retail sales, and consumer and industry confidence plunged, and despite a subsequent uptick remain very low, and the number of registered unemployed increased rapidly following the confinement. The direct initial impact of the lockdowns could have reduced the level of aggregate output by one-quarter, mostly concentrated in the retail and wholesale sectors, and professional and real estate services.

Lithuania: Demand, output and prices (single-hit scenario)

Lithuania: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	38.9	4.2	3.6	3.9	-8.1	6.4
Private consumption	24.5	3.5	3.7	3.2	-8.2	7.6
Government consumption	6.6	-0.3	0.5	0.7	2.7	0.9
Gross fixed capital formation	7.7	8.2	8.4	7.4	-8.9	6.2
Final domestic demand	38.9	3.7	4.1	3.6	-6.5	6.0
Stockbuilding[1]	- 0.3	-1.0	-0.8	-2.5	-0.4	0.0
Total domestic demand	38.6	2.8	3.4	1.2	-7.1	6.5
Exports of goods and services	26.3	13.6	6.3	9.6	-11.1	4.7
Imports of goods and services	26.0	11.5	6.0	6.0	-10.3	4.7
Net exports[1]	0.3	1.5	0.4	2.8	-1.2	0.3
Memorandum items						
GDP deflator	_	4.3	3.3	3.0	1.1	1.5
Harmonised index of consumer prices	_	3.7	2.5	2.2	0.9	1.5
Harmonised index of core inflation[2]	_	2.6	1.9	2.3	1.5	1.5
Unemployment rate (% of labour force)	_	7.1	6.1	6.3	9.1	8.2
General government financial balance (% of GDP)	_	0.5	0.6	0.3	-9.8	-3.5
General government gross debt (% of GDP)	_	47.0	40.9	44.9	55.7	57.4
General government debt, Maastricht definition (% of GDP)	_	39.1	33.8	36.2	47.0	48.7
Current account balance (% of GDP)	_	0.4	0.2	4.2	3.6	3.9

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138302

A broad stimulus package was introduced rapidly

An overall package of EUR 5 billion (10% of GDP) was announced on 16 March, equally split between fiscal and financial support. The fiscal initiatives under the package, and additional measures introduced since then, provide funds for the health care system and emergency management, as well as measures to preserve jobs and incomes, maintain business liquidity and stimulate the economy. Measures include short-time work schemes in the form of wage subsidies that ensure that workers receive at least the minimum wage, a flat benefit (EUR 257 per month) for the insured self-employed, and increased sickness benefits for employees infected by the virus. There are also loan and tax payment deferrals, soft loans to eligible SMEs and temporary rental subsidies to businesses. To help the economy recover, special attention is given to the acceleration of investment programmes, including through the co-financing of climate investment projects. Additional fiscal measures were approved by the government in May 2020, amounting to approximately 2% of GDP, to support businesses and households after the end of confinement, including an extension of short-time work schemes for six months, a temporary job search benefit and increases in social benefits. Moreover, the central bank lowered its counter-cyclical capital buffer from 1% to 0% in March 2020 and is taking a more flexible approach regarding some capital and liquidity requirements imposed on banks. Solvent financial institutions who are facing temporary liquidity problems can currently apply to the Bank of Lithuania for emergency liquidity assistance. These initiatives are in addition to the ECB's accommodative monetary policies.

A second outbreak would delay the recovery further

GDP growth is projected to contract in 2020 by 10.4% if a second outbreak of the virus occurs towards the end year (the “double-hit” scenario), as consumption falls sharply with containment measures and the associated rise in unemployment and supply disruptions shrink production. Should there be no second outbreak (the “single-hit” scenario), output will decline by 8.1%. The pandemic is also taking a toll on investments through plunging business confidence and a decline of demand for exports. The severe slowdown will be followed by a recovery once confinement restrictions are lifted and external demand strengthens, helped by policy measures. EU structural fund disbursements will continue to provide support to investment. Unemployment will rise and, despite a subsequent gradual decline, remain above its pre-crisis level, especially in the double-hit scenario. Shifts in domestic spending patterns and weaker-than-expected growth in trading partners could slow the recovery, while a sharp correction in financial markets would have an adverse impact on corporate funding conditions.

Further policy measures are necessary to ensure a solid recovery

The stimulus package was timely and comprehensive, and should help to mitigate the economic impact of the COVID-19 pandemic. Measures such as short-time work schemes and support for non-standard workers can protect jobs and incomes. It is important to ensure that the support measures are well-targeted on the firms and employees most affected by the crisis. The low public debt level provides fiscal space for additional support if the downturn is more severe than expected. Preventing increases in already high poverty rates, including by increasing social benefits for those with the lowest incomes, is essential. In addition, structural policies will play a key role for the aftermath of the crisis. Effective job-search assistance along with training and retraining programmes are vital. Efficient insolvency procedures that facilitate enterprise restructuring are also very important to restart the economy. Ensuring the preparedness of the health system to cope with a potential second outbreak of the pandemic through sufficient resources is another key priority. Implementation of climate investment projects is necessary for a greener recovery.

Luxembourg

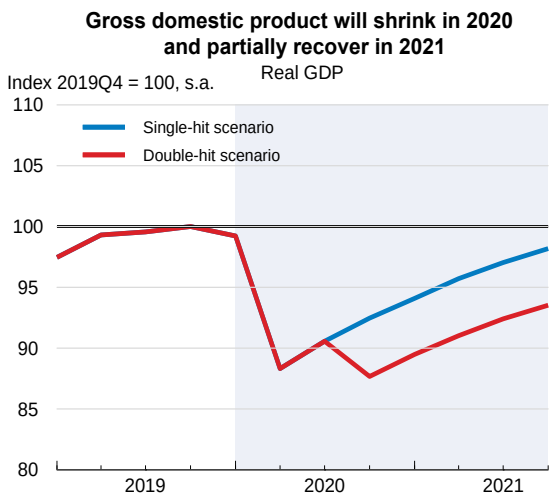
The COVID-19 pandemic has led to a sharp contraction of the economy. If the virus subsides by the summer (the single-hit scenario), GDP is projected to shrink by 6.5% in 2020, as a consequence of measures put in place to contain the spread of the COVID-19 pandemic, and then recover by 3.9% in 2021. If there is a new virus outbreak later this year (the double-hit scenario), GDP would drop by 7.7% in 2020 and rebound by only 0.2% in 2021. In both scenarios, the recovery will be supported by domestic demand and, to a lesser extent, by exports. The unemployment rate would reach a level close to 8.6% in 2021 in the double-hit scenario and 7.5% in the single-hit scenario.

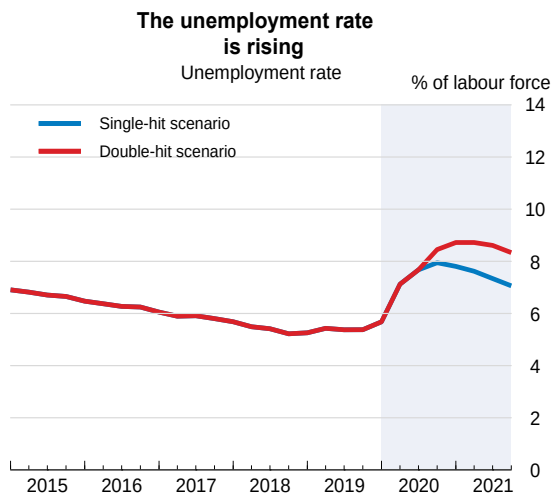
Policies that protect workers, businesses and households – including grants for small firms, credit guarantees for businesses and the extension of short-time work schemes – should stay in place until domestic demand shows stronger signs of recovery to minimise possible long-run damage to the economy. To reduce the likelihood of renewed outbreaks, businesses should be encouraged to redesign production and service provision processes in order to reduce physical contact among individuals, for instance through financial incentives. The current extensive testing strategy should continue, to promptly detect and monitor possible new virus clusters.

Strict containment measures brought the virus outbreak under control

The first COVID-19 case in the country was reported on 29 February. The pandemic spread quickly in March, reaching a peak in early April. The containment measures adopted succeeded in limiting the outbreak, with new infections, hospitalisations and deaths declining markedly. A widespread COVID-19 testing strategy supported a relatively accurate and timely tracking of the pandemic.

Luxembourg





Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934139727

Luxembourg: Demand, output and prices (double-hit scenario)

Luxembourg: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices EUR billion	Percentage changes, volume (2010 prices)				
GDP at market prices	54.8	1.8	3.1	2.3	-7.7	0.2
Private consumption	16.3	2.2	3.3	2.8	-9.7	2.3
Government consumption	8.7	5.2	4.0	4.9	6.5	2.0
Gross fixed capital formation	10.0	5.6	-6.1	4.0	-14.4	0.8
Final domestic demand	35.0	3.9	0.8	3.7	-6.6	1.9
Stockbuilding[1]	0.5	-1.1	1.0	-0.2	0.0	0.0
Total domestic demand	35.4	2.2	2.3	3.4	-6.5	1.9
Exports of goods and services	116.8	0.7	0.5	0.8	-9.7	-1.2
Imports of goods and services	97.4	0.7	-0.3	0.9	-9.6	-0.9
Net exports[1]	19.4	0.4	1.6	0.2	-3.5	-1.0
Memorandum items						
GDP deflator	_	1.7	2.5	3.4	1.4	1.3
Harmonised index of consumer prices	_	2.1	2.0	1.6	0.7	0.7
Harmonised index of core inflation[2]	_	1.4	0.9	1.8	1.2	0.9
Unemployment rate (% of labour force)	_	5.9	5.5	5.4	7.2	8.6
General government financial balance (% of GDP)	_	1.3	3.1	2.2	-6.7	-7.7
General government gross debt (% of GDP)	_	29.9	29.0	29.4	32.9	41.2
General government debt, Maastricht definition (% of GDP)	_	22.4	21.0	21.4	24.9	33.2
Current account balance (% of GDP)	_	4.9	4.8	4.5	2.6	2.8

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138321

On 16 March, the authorities advised against all non-essential travel to other countries. A number of strict containment measures were adopted after the state of crisis was approved by parliament on 21 March. These included the closure of schools and all non-essential commercial activities, a suspension of all cultural, social and recreational activities, the cancellation of all gatherings, and the shutdown of all construction sites, except for those related to health and other critical infrastructure. All residents were advised to remain at home and to practice physical distancing. Following a three-phase lockdown exit plan adopted in mid-April, commercial activities and schools reopened in May.

The economy has deteriorated fast

Short-term indicators point to a rapid deterioration in the economic situation in the second quarter of 2020 due to the measures taken to contain the pandemic. The unemployment rate rose considerably in March and April, and May's business survey reported the lowest confidence level since the Global Financial Crisis. Following 8 weeks of lockdown, private consumption is expected to drop by about 16% in the second quarter of 2020. Over the same period, non-residential and government fixed investment are set to decline by over 21%. These figures are slightly smaller with respect to other advanced economies due to the relative resilience of the financial sector and its large role in the economy of Luxembourg.

Luxembourg: Demand, output and prices (single-hit scenario)

Luxembourg: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices EUR billion	Percentage changes, volume (2010 prices)				
GDP at market prices	54.8	1.8	3.1	2.3	-6.5	3.9
Private consumption	16.3	2.2	3.3	2.8	-7.8	7.4
Government consumption	8.7	5.2	4.0	4.9	6.8	3.2
Gross fixed capital formation	10.0	5.6	-6.1	4.0	-12.3	7.5
Final domestic demand	35.0	3.9	0.8	3.7	-5.1	6.2
Stockbuilding[1]	0.5	-1.1	1.0	-0.2	0.0	0.0
Total domestic demand	35.4	2.2	2.3	3.4	-5.0	6.1
Exports of goods and services	116.8	0.7	0.5	0.8	-8.6	2.6
Imports of goods and services	97.4	0.7	-0.3	0.9	-8.5	3.1
Net exports[1]	19.4	0.4	1.6	0.2	-3.3	0.0
Memorandum items						
GDP deflator	_	1.7	2.5	3.4	1.4	1.4
Harmonised index of consumer prices	_	2.1	2.0	1.6	0.7	1.0
Harmonised index of core inflation[2]	_	1.4	0.9	1.8	1.2	1.1
Unemployment rate (% of labour force)	_	5.9	5.5	5.4	7.1	7.5
General government financial balance (% of GDP)	_	1.3	3.1	2.2	-5.8	-4.6
General government gross debt (% of GDP)	_	29.9	29.0	29.4	32.7	39.5
General government debt, Maastricht definition (% of GDP)	_	22.4	21.0	21.4	24.7	31.5
Current account balance (% of GDP)	_	4.9	4.8	4.5	2.8	3.8

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138340

The policy response has been prompt and forceful

To reduce the impact of containment measures on the economy and to preserve jobs and viable firms, a number of tax, expenditure and financial measures have been put in place. Tax and social security charge deferrals have been announced, aimed at alleviating the liquidity situation of businesses and self-employed individuals. The government set up a loan guarantee facility of EUR 2.5 billion for new credit lines until the end of 2020. This adds to the six-month moratorium on debt repayments voluntarily agreed by Luxembourg banks. Eligible companies can benefit from a repayable advance introduced to support SMEs affected by the economic consequences of the COVID-19 outbreak. Companies with less than 10 employees can request lump-sum grants. The short-time work scheme (“chômage partiel”) was expanded to all companies affected by the COVID-19 crisis. Overall, the projection envisages a discretionary fiscal stimulus of about 3% of GDP in 2020.

Risks are on the downside

In the single-hit scenario, GDP is expected to contract by 6.5% in 2020, while it would shrink by 7.7% in the equally likely double-hit scenario. In both scenarios, the fall in domestic demand projected in 2020 is driven by sinking private consumption and business investment. In 2021, in the single-hit scenario, GDP growth is expected to rebound to 3.9%, supported by a bounce-back in private consumption and investment, and by a more limited quarter-on-quarter recovery in exports. A more modest recovery is envisaged in the double-hit scenario, with GDP growth in 2021 of only 0.2%. The unemployment rate will

increase in both scenarios, reaching 7.5% (single-hit scenario) and 8.6% (double-hit scenario) in 2021. Risks to the projections are on the downside and include a persistently high unemployment rate, labour force de-skilling, and long-term negative impacts on private investment, causing a decline in output potential. Prolonged weakness in external demand and increased distress in the financial sector are additional risk factors. On the upside, a faster disappearance of the pandemic could lead to a stronger rebound.

Sustained policy support is essential

Policy support should remain in place until the economic pick-up becomes self-sustained. A possible time extension of short-term work schemes should be considered to preserve valuable job matches, especially in event of a second pandemic outbreak. To support a needed recovery in the job market, active labour market policies should be scaled up to cope with the rising number of job seekers. Businesses should be encouraged to adopt production and service provision models that reduce physical contact among individuals, thereby minimising the risk of new outbreaks. To this end, targeted financial support should be considered.

Mexico

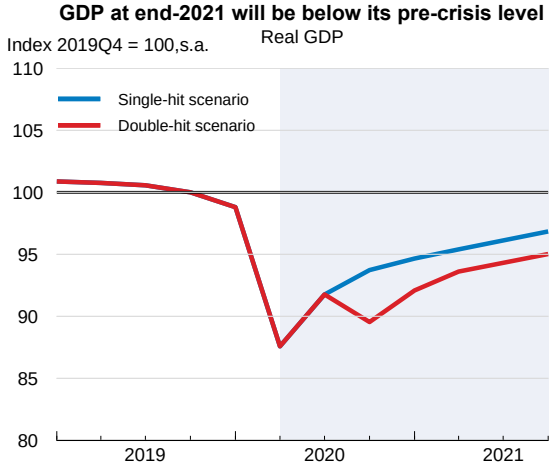
The pandemic will push the economy into a severe recession in 2020, driven by the global contraction, the fall in tourism, lower oil prices and the necessary domestic confinement measures taken. GDP would fall by 8.6% this year if there is another outbreak later in the year (the double-hit scenario). If further outbreaks are avoided (the single-hit scenario), the economy would contract by 7.5%, with a recovery in the second half of the year led by exports and consumption. In both scenarios, the level of GDP would remain lower than at end-2019, as it will take some time for the tourism and export sectors to return to pre-pandemic levels. The poor and vulnerable, including informal workers, will be particularly hard hit by the recession.

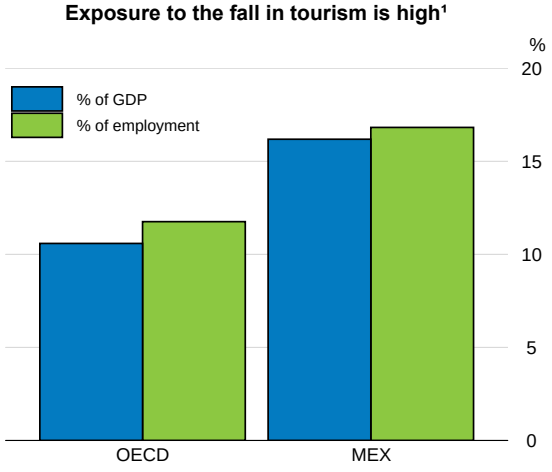
Mexico has put in place a wide range of fiscal, financial and monetary measures to address the crisis. Fiscal space is limited but, given the severity of recession, additional measures are warranted, as they will further mitigate hardship and reinvigorate the recovery. Such measures should focus on providing affected workers, both in the informal and formal sectors, with income support and avoiding that viable firms disappear. Bolstering private investment will be key to achieve a job-rich recovery and this will require reducing regulatory burden and uncertainty.

Amidst the widespread pandemic, health system capacity has been increased

Mexico recorded the first COVID-19 cases on 28 February. Transmission became widespread and cases were reported in multiple locations after mid-April. Mexico City, the State of Mexico and Baja California account for nearly half of confirmed cases but all 32 states have reported positive cases. There are large regional inequalities in health care quality and access. The high prevalence of obesity and diabetes is an additional source of vulnerability, while the relative young profile of the population is a positive factor.

Mexico





1. Data show the tourism sector as a share of total GDP and employment.
Source: OECD Economic Outlook 107 database; and World Travel & Tourism Council.

StatLink https://doi.org/10.1787/888934139746

Mexico: Demand, output and prices (double-hit scenario)

Mexico: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices MXN billion	Percentage changes, volume (2013 prices)				
GDP at market prices	20 118.1	2.1	2.1	-0.1	-8.6	2.0
Private consumption	13 188.7	3.2	2.3	0.6	-8.3	1.6
Government consumption	2 417.6	0.7	3.0	-1.5	2.3	1.8
Gross fixed capital formation	4 612.4	-1.6	0.9	-4.9	-14.5	3.0
Final domestic demand	20 218.7	1.8	2.1	-0.9	-8.3	1.9
Stockbuilding[1]	296.6	0.0	-0.1	-0.2	0.1	0.0
Total domestic demand	20 515.3	1.7	1.9	-1.2	-8.3	1.9
Exports of goods and services	7 456.4	4.2	5.9	1.1	-9.2	2.3
Imports of goods and services	7 853.6	6.4	5.9	-1.1	-7.4	2.0
Net exports[1]	- 397.2	-0.8	0.0	0.8	-0.7	0.1
Memorandum items						
GDP deflator	_	6.7	5.0	3.3	2.0	2.4
Consumer price index	_	6.0	4.9	3.6	2.6	2.4
Core inflation index[2]	_	4.7	3.8	3.7	2.8	2.4
Unemployment rate[3] (% of labour force)	_	3.4	3.3	3.5	6.3	6.0
Current account balance (% of GDP)	_	-1.8	-2.1	-0.3	-0.1	-0.2

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding volatile items: agricultural, energy and tariffs approved by various levels of government.
3. Based on National Employment Survey.

Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138359

The authorities have taken several measures to contain the outbreak, including declaring a health emergency, voluntary quarantines and closures of schools, public offices, and most public spaces. The federal government has gradually strengthened distance measures as the pandemic evolved. Several states applied earlier and stricter confinement measures. The reconversion of public and private infrastructure into hospital facilities, hiring additional medical staff and collaboration with private hospitals helped to increase the capacity of the health system. Additional medical equipment and material have been acquired through air bridges established with China and the United States.

The economy is in a deep recession

The necessary containment measures, coupled with the global economic downturn and declines in oil prices, are taking a major toll on the economy, which contracted sharply in the first quarter. The impact of the pandemic has intensified during the second quarter. More than 0.5 million formal sector jobs were lost in April, more than all formal jobs created last year. Tourism receipts collapsed, as recessions and travel restrictions in the main source countries reduced travel. OECD estimates suggest a decline in total activity of around 30% during the lockdown on the basis of certain illustrative assumptions. Mexico has also been hit by the adjustment of investors' portfolios towards safe assets and the largest reduction ever of international investors' holdings of emerging-market economies' assets. At the onset of the crisis, the peso depreciated sharply similarly to currencies of other emerging-market economies. The strong policy framework has absorbed the rise in demand for foreign currency. Reserves remain sizeable, covering more than twice Mexico's annual gross external financing needs, including short-term external debt.

Mexico: Demand, output and prices (single-hit scenario)

Mexico: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices MXN billion	Percentage changes, volume (2013 prices)				
GDP at market prices	20 118.1	2.1	2.1	-0.1	-7.5	3.0
Private consumption	13 188.7	3.2	2.3	0.6	-7.2	2.6
Government consumption	2 417.6	0.7	3.0	-1.5	2.3	1.8
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Net exports[1]	- 397.2	-0.8	0.0	0.8	-0.6	0.1
Memorandum items						
GDP deflator	_	6.7	5.0	3.3	2.1	2.6
Consumer price index	_	6.0	4.9	3.6	2.7	2.8
Core inflation index[2]	_	4.7	3.8	3.7	2.9	2.8
Unemployment rate[3] (% of labour force)	_	3.4	3.3	3.5	6.0	5.8
Current account balance (% of GDP)	_	-1.8	-2.1	-0.3	-0.1	-0.2

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding volatile items: agricultural, energy and tariffs approved by various levels of government.
3. Based on National Employment Survey.

Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138378

A wide range of fiscal, financial and monetary policy actions have been taken

Policies have aimed, appropriately, at reducing long-term economic and social damage. Besides higher health spending, key fiscal measures include frontloading of social pension and disability payments and the public housing credit institute covering three months of workers' debt. Among other measures, the government also announced additional lending to small businesses who have not fired workers or reduced salaries since the outbreak (0.1% of GDP), and additional liquidity by local development banks (0.2% of GDP). Specific credit lines for the informal sector, which accounts for 55% of employment in Mexico, have also been set up (0.1% of GDP). These fiscal measures, that are smaller than in most OECD countries, go in the right direction. The monetary policy interest rate has been lowered by 175 basis points since end-2019, to 5.5%. The central bank also announced additional measures to foster orderly functioning of financial markets, strengthen the credit channels and provide liquidity in both foreign and local currency. The flexible exchange rate is helping the economy to absorb the shocks.

The recession will be sharp

Mexico will be hit hard by the pandemic, owing to its highly open economy with large exposures to trade, tourism, global supply chains, oil prices and remittances. In both scenarios, the recovery will be gradual and partial by end-2021. The projections assume that confinement measures are gradually lifted as from end-May, with differences across states depending on contagion dynamics. In the double-hit scenario, confinement measures will need to be reinstated and the recession will be deeper and the rebound weaker. The unemployment rate will rise to a historic peak, above 7%, during 2020 and decline only slowly afterwards. Informality is expected to increase significantly. In the single-hit scenario, the recovery in 2021

will be stronger. In both scenarios, the fall in nominal GDP, the depreciation of the peso and the reduction of revenues will push the official measure of public debt above 55% of GDP. The main downside risk is a deeper-than-expected contraction and a slower-than-expected recovery in the United States. On the upside, exports could be stronger, as the new trade agreement with the United States and Canada is scheduled to come into force at mid-year.

There is room for further fiscal and monetary action

Addressing the COVID-19 outbreak should remain the short-term overarching priority. Boosting testing and tracing capabilities and continuing to prepare the health system for increases in healthcare demand are important priorities. The fiscal and monetary responses have appropriately provided support to contain long-term economic damage. However, given the magnitude of the recession, further policy actions are warranted. On the fiscal side, recent fiscal prudence provides now some room for additional action, which could take the form of income support for informal and formal workers who have lost jobs or suffered significant income losses and a reinforced unemployment insurance scheme. Some states are granting temporary reduction on payroll taxes for SMEs, which could also be complemented at the federal level. The credible monetary policy framework is helping to absorb the external shock and minimise current account imbalances. There is also scope for additional policy interest rate cuts to further support the recovery.

Netherlands

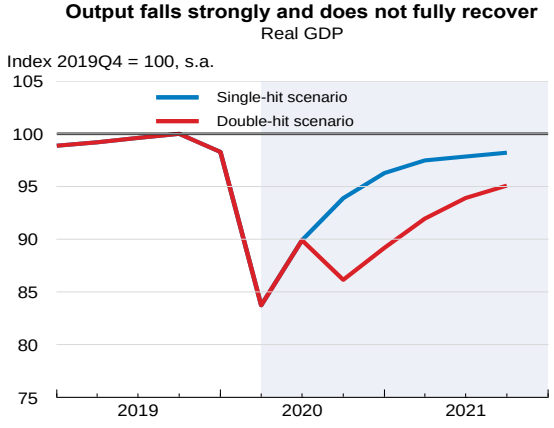
The economy has been hard hit by the COVID-19 virus. Output is set to shrink by 8% in 2020 before picking up in 2021 if the current outbreak is overcome and restrictions are gradually lifted from mid-May (the single-hit scenario). If there is a second wave of the virus later in 2020, GDP is expected to decrease by 10% and the rebound will be considerably slower (the double-hit scenario). The fall is driven by domestic demand in both scenarios, including private consumption and investments. Pent-up consumption demand will drive the initial pick-up, with investment lagging due to spare capacity and lingering uncertainty, but output will remain below pre-crisis levels by the end of 2021 in both scenarios. Unemployment will remain well above 2019 levels throughout 2021. Automatic stabilisers and discretionary spending are supporting businesses and households, pushing the fiscal balance into deficit.

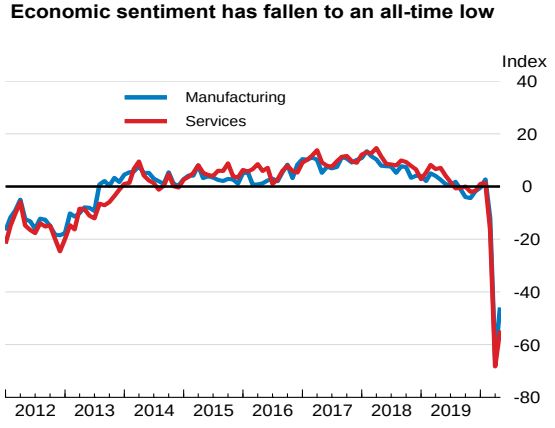
The government has implemented timely policy measures, including cash support for up to 90% of the wage bill, tax deferrals and credit guarantees for companies and has eased access to social assistance for the self-employed. Going forward, policies need to gradually shift focus to boosting demand while addressing structural challenges within housing and pension policies, broadening social security coverage and reducing nitrogen and greenhouse gas emissions.

Contagion has been brought to a manageable level

The first Dutch case of COVID-19 was confirmed 27 February. The number of cases increased rapidly, but the number of daily hospitalisations peaked at about 600 and deaths at below 200 in late March. The well-funded and effective health system was put under considerable pressure, but not overwhelmed. The number of intensive care beds was rapidly increased from 925 to 2400.

Netherlands





Source: OECD Economic Outlook 107 database; and Statistics Netherlands (CBS).

StatLink https://doi.org/10.1787/888934139765

Netherlands: Demand, output and prices (double-hit scenario)

Netherlands: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	708.3	3.0	2.5	1.8	-10.0	3.4
Private consumption	316.1	2.2	2.3	1.4	-16.8	6.0
Government consumption	174.9	0.9	1.6	1.6	7.3	-0.5
Gross fixed capital formation	141.8	4.3	3.2	5.2	-19.1	5.3
Final domestic demand	632.8	2.3	2.3	2.4	-10.7	3.7
Stockbuilding[1]	3.4	0.1	-0.2	0.0	-0.3	0.0
Total domestic demand	636.2	2.4	2.1	2.3	-11.1	3.7
Exports of goods and services	562.8	6.7	3.7	2.3	-14.3	5.4
Imports of goods and services	490.7	6.4	3.2	3.0	-16.4	6.2
Net exports[1]	72.1	0.9	0.7	-0.3	-0.1	0.1
Memorandum items						
GDP deflator	_	1.2	2.2	3.0	1.7	0.7
Harmonised index of consumer prices	_	1.3	1.6	2.7	0.2	0.2
Harmonised index of core inflation[2]	_	0.8	1.0	1.9	1.1	0.6
Unemployment rate (% of labour force)	_	4.9	3.8	3.4	6.5	6.6
General government financial balance (% of GDP)	_	1.3	1.4	1.7	-12.6	-9.8
General government gross debt (% of GDP)	_	70.7	65.7	62.1	77.6	85.6
General government debt, Maastricht definition (% of GDP)	_	56.9	52.4	48.6	64.1	72.1
Current account balance (% of GDP)	_	10.8	10.9	10.2	13.9	13.7

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138397

Schools, universities, bars, restaurants, sports clubs, coffee shops and other establishments where it was not possible to keep a 1.5-meter distance between people were closed in mid-March. Public events were banned and EU-wide travel restrictions implemented. On 23 March, the Dutch government announced an economy-wide shutdown, with distancing rules and instructions to stay at home as much as possible. A gradual reopening started from 11 May.

The lockdown triggered a sharp economic contraction

The Netherlands has been relatively hard hit by the virus, as its industry structure, with a strong reliance on trade and professional services, makes the economy vulnerable to distancing measures. Furthermore, openness to international trade and leveraged households create particular vulnerabilities. Sectors accounting for 36% of the economy were directly affected by the lockdown, although many activities, for example construction and retail trade, could continue subject to distancing measures. Consumer confidence fell sharply in April and May, unemployment insurance claims soared, and economic sentiment plummeted to record lows in both manufacturing and services.

Netherlands: Demand, output and prices (single-hit scenario)

Netherlands: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	708.3	3.0	2.5	1.8	-8.0	6.6
Private consumption	316.1	2.2	2.3	1.4	-13.0	14.2
Government consumption	174.9	0.9	1.6	1.6	5.5	-2.5
Gross fixed capital formation	141.8	4.3	3.2	5.2	-15.6	6.9
Final domestic demand	632.8	2.3	2.3	2.4	-8.6	7.3
Stockbuilding[1]	3.4	0.1	-0.2	0.0	-0.3	0.0
Total domestic demand	636.2	2.4	2.1	2.3	-8.9	7.3
Exports of goods and services	562.8	6.7	3.7	2.3	-11.0	10.3
Imports of goods and services	490.7	6.4	3.2	3.0	-12.6	11.8
Net exports[1]	72.1	0.9	0.7	-0.3	-0.1	0.1
Memorandum items						
GDP deflator	_	1.2	2.2	3.0	1.7	0.9
Harmonised index of consumer prices	_	1.3	1.6	2.7	0.3	0.6
Harmonised index of core inflation[2]	_	0.8	1.0	1.9	1.1	0.8
Unemployment rate (% of labour force)	_	4.9	3.8	3.4	5.9	4.9
General government financial balance (% of GDP)	_	1.3	1.4	1.7	-11.5	-5.9
General government gross debt (% of GDP)	_	70.7	65.7	62.1	75.8	78.6
General government debt, Maastricht definition (% of GDP)	_	56.9	52.4	48.6	62.3	65.0
Current account balance (% of GDP)	_	10.8	10.9	10.2	13.6	12.8

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138416

Policy has been timely and supportive

The government implemented discretionary support measures amounting to 2.5% of GDP and let the automatic fiscal stabilisers operate fully. Support measures include paying up to 90% of the wage bill of affected companies at an estimated total cost of 1% of GDP, direct cash support to companies and eased access to social assistance for the self-employed. Additional off-balance-sheet support has been provided by means of deferring taxes and social security contributions and extending credit guarantees. Financial institutions' capital requirements have been eased, market regulations adapted, and new mechanisms implemented to support corporate restructuring and mediate bankruptcy disputes.

Output and employment will only recover gradually

Output is forecast to shrink by 10% in 2020 in the double-hit scenario, where a second wave of infection leads to renewed restrictions in the fourth quarter. In the single-hit scenario, where lockdowns are phased out gradually from mid-May, annual growth is set to shrink by 8%. Ongoing restrictions, low confidence and the weak global environment contribute to keeping GDP below its pre-crisis level at the end of 2021 in both scenarios. The labour market suffers, with labour market participation falling and unemployment rising considerably. Employment will recover only partially in either scenario, and weak demand will push inflation below zero for an extended period of time. The fiscal balance will move from surplus into deficit even as the economy picks up. Public debt (Maastricht definition) will increase from 48% of GDP to 65% and 72% in the respective scenarios.

Households' inflated balance sheets, with large, illiquid pension and housing assets combined with high housing-related debt can lead to even weaker consumption than expected, notably if the crisis results in lower house prices. Furthermore, the liquidity ratio of pension funds has fallen below regulatory requirements. If this situation persists, it could force funds to increase contributions or reduce pensions, dealing a further blow to private consumption. Increased default rates on mortgages are unlikely, but liquidity problems in the business sector turning into solvency issues could risk unsettling financial market. Furthermore, the economy is particularly sensitive to developments in global trade.

Policies should boost resilience and support demand

Current policy adequately protects businesses and people against the short-term consequences of the COVID-19 outbreak and the lockdown. Fiscal policy should remain supportive going forward, but needs to shift to general demand support after the end of the lockdown. Such stimulus should support necessary structural change, inclusiveness and the environment, including broadening the coverage of social security benefits, expanding renewable energy generation capacity and reducing nitrogen emissions from agriculture. Low interest rates create an opportunity to reduce further tax subsidies to home-owners by phasing out mortgage rate deductibility. The crisis accentuates the need to reform the pension system to make it fairer for the young and more resilient to low interest rates and asset price fluctuations.

New Zealand

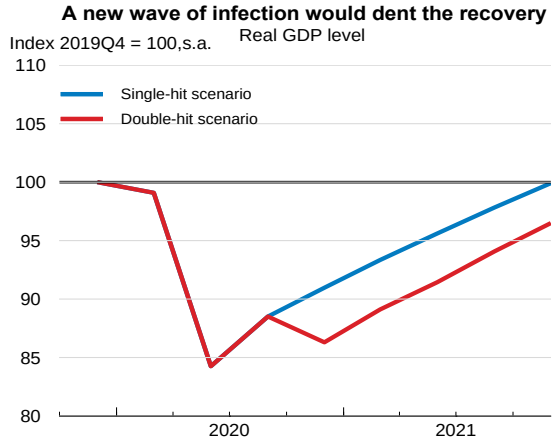
The swift and decisive response against COVID-19 successfully contained the virus outbreak, saving lives and allowing the economy to reopen faster. However, confinement brought a number of sectors to a sudden stop in the second quarter. The economic recovery will be supported by substantial fiscal and monetary stimulus, but will remain sluggish, as high unemployment and weak business confidence hold back domestic demand and export growth is stymied by the collapse of international tourism. Assuming that there are no further virus outbreaks (the single-hit scenario), GDP is projected to shrink by nearly 9% in 2020 and only return to the pre-crisis level by the end of 2021. Should there be a second global wave of infections in the fourth quarter of 2020 (the double-hit scenario), GDP is projected to shrink by 10% in 2020 and to remain 3.5% below the pre-crisis level by the end of 2021.

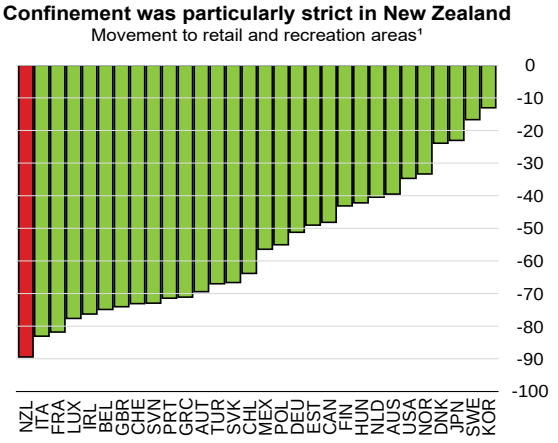
As the economy begins to recover, many workers will be jobless and numerous firms prone to insolvency. Fiscal measures to preserve jobs and prevent the bankruptcy of viable firms should remain in place until the recovery is firmly established, while fiscal and monetary policy should continue to support aggregate demand. Strengthening the capacity of the health sector to cope with a virus outbreak would also reduce the need for a shutdown in the event of another domestic virus wave.

Swift and strict measures contained the virus spread

New Zealand identified its first case of COVID-19 infection in late February and saw a rapid increase in cases a few weeks later, but had contained the virus spread by the end of April. The health system is easily accessible and the quality of care is high. Nevertheless, it has relatively few intensive care units with ventilators, making early intervention to stop the spread of the virus all the more important.

New Zealand





1. The decline in people's mobility over 1-30 April relative to 3 January-5 February 2020 (i.e., before COVID-19 struck).
Source: OECD Economic Outlook 107 database; and Google mobility tracking data.

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New Zealand: Demand, output and prices (double-hit scenario)

New Zealand: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices NZD billion	Percentage changes, volume (2009/2010 prices)				
GDP at market prices	265.9	3.8	3.2	2.2	-10.0	3.6
Private consumption	153.1	5.1	3.2	2.7	-9.8	4.5
Government consumption	48.6	2.9	3.7	4.3	5.8	2.8
Gross fixed capital formation	60.6	5.1	5.2	2.7	-12.0	2.4
Final domestic demand	262.4	4.7	3.7	3.0	-7.4	3.6
Stockbuilding[1]	0.7	0.3	0.3	-1.0	0.1	0.0
Total domestic demand	263.1	5.0	4.1	2.0	-7.2	3.6
Exports of goods and services	71.1	2.3	2.6	2.4	-17.2	4.5
Imports of goods and services	68.2	6.9	5.8	1.5	-7.4	4.5
Net exports[1]	2.9	-1.2	-0.8	0.2	-2.7	-0.1
Memorandum items						
GDP deflator	_	3.3	1.2	2.3	2.2	1.2
Consumer price index	_	1.9	1.6	1.6	1.5	0.5
Core inflation index[2]	_	1.4	1.2	1.8	1.4	0.5
Unemployment rate (% of labour force)	_	4.7	4.3	4.1	8.1	8.9
General government financial balance (% of GDP)	_	1.7	1.2	-3.6	-10.6	-12.1
General government gross debt (% of GDP)	_	35.7	34.1	36.5	51.6	58.4
Current account balance (% of GDP)	_	-2.7	-3.8	-3.0	-5.5	-5.6

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138435

Strict border and distancing measures were promptly implemented. From 20 March, the government banned non-citizens and non-permanent residents from entering the country. It also moved to the most stringent level of its containment system on 25 March, requiring people to stay home, closing schools, universities and non-essential businesses, and imposing severe travel restrictions. The containment system was relaxed on 28 April as the number of new cases fell near to zero, allowing businesses that do not require close person-to-person contact to reopen. Following a further relaxation on 14 May, most other businesses, including restaurants and cafés, were allowed to open subject to respecting distancing requirements. The Reserve Bank of New Zealand (RBNZ) estimates that at this restriction level, only 9% of economic activity is suppressed, compared with 37% at the strictest level.

The impact on the economy has been severe

The strict containment measures brought a number of sectors of the economy to a sudden stop. In the first half of April, New Zealanders cut back visits to retailers and recreational areas more than in any other OECD country with available data. The tourism sector, which accounted for about 10% of GDP and 20% of exports in 2019, was particularly hard hit, as both international and domestic demand evaporated. Both exports and imports have fallen sharply. By late April, employers were receiving wage subsidies for 1.7 million workers (two-thirds of private-sector employment) to preserve their jobs. Business confidence has plummeted to record lows although it started to recover in May.

New Zealand: Demand, output and prices (single-hit scenario)

New Zealand: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices NZD billion	Percentage changes, volume (2009/2010 prices)				
GDP at market prices	265.9	3.8	3.2	2.2	-8.9	6.6
Private consumption	153.1	5.1	3.2	2.7	-9.0	8.1
Government consumption	48.6	2.9	3.7	4.3	5.8	2.3
Gross fixed capital formation	60.6	5.1	5.2	2.7	-11.5	4.0
Final domestic demand	262.4	4.7	3.7	3.0	-6.8	5.9
Stockbuilding[1]	0.7	0.3	0.3	-1.0	0.1	0.0
Total domestic demand	263.1	5.0	4.1	2.0	-6.6	5.9
Exports of goods and services	71.1	2.3	2.6	2.4	-14.7	8.5
Imports of goods and services	68.2	6.9	5.8	1.5	-7.0	6.0
Net exports[1]	2.9	-1.2	-0.8	0.2	-2.1	0.5
Memorandum items						
GDP deflator	_	3.3	1.2	2.3	2.2	1.1
Consumer price index	_	1.9	1.6	1.6	1.5	0.8
Core inflation index[2]	_	1.4	1.2	1.8	1.4	0.8
Unemployment rate (% of labour force)	_	4.7	4.3	4.1	7.9	7.2
General government financial balance (% of GDP)	_	1.7	1.2	-3.6	-10.0	-8.9
General government gross debt (% of GDP)	_	35.7	34.1	36.5	48.7	53.0
Current account balance (% of GDP)	_	-2.7	-3.8	-3.0	-4.8	-4.4

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138454

Massive fiscal and monetary supports are in place

The policy response to COVID-19 has been timely, substantial and well coordinated. The fiscal response package amounting to NZD 12.1 billion (4% of GDP) announced on 17 March was followed up by a NZD 50 billion fund announced in the May 2020 Budget, of which about NZD 30 billion has already been allocated. Major support measures include a large wage subsidy scheme (which was extended from June to September in a more targeted form), a loan guarantee scheme for SMEs, under which the government bears 80% of the credit risk, tax deferrals and reliefs, increased social benefits as well as increased support for the health-care and aviation sectors. A six-month interest and principal payment deferral scheme has also been established by banks for borrowers having debt-servicing difficulties. Legislation providing insolvency relief for companies and other entities has been passed. These measures are helping to preserve jobs and prevent viable firms from going bankrupt. Meanwhile, the RBNZ cut the policy rate by 75 basis points, to 0.25%, delayed implementation of planned increases in bank capital-adequacy requirements and began a Large Scale Asset Purchase Programme of central and local government bonds amounting to up to NZD 60 billion (20% of annual GDP) to reduce long-term interest rates.

The recovery will be gradual and vulnerable to the effects of new waves of infection

The economy has started to recover, but even in the absence of further virus outbreaks (single-hit scenario) will only regain the pre-crisis level of output by end-2021 owing to low activity in sectors recovering from strict distancing requirements. A surge in unemployment following the scaling back and subsequent termination of the wage subsidy scheme, together with a large reduction in net inward migration and a loss

in housing wealth, will hold back private consumption. Business investment will remain subdued, reflecting weak business confidence and low capacity utilisation. Goods exports will increase on the back of strong global demand for food but tourism exports will be slow to recover because the border is likely to remain closed to foreign visitors until at least early 2021. In the event of a second global wave of infections (double-hit scenario), the economy will contract again and the unemployment rate will reach 10% in late 2020. The border would remain closed longer, further delaying the recovery of tourism exports and migration. In these circumstances, the government is assumed to increase fiscal stimulus by 2.5% of GDP. In both scenarios, slower recovery of the world economy, particularly in China, New Zealand's largest export market, would further delay the recovery. On the other hand, tourism and travel would get a substantial boost if travel between Australia and New Zealand is allowed before the more general opening of the border.

Further policy measures are needed to strengthen resilience and spur economic recovery

The government should expand testing, tracing and isolation of infected people until they are no longer a risk to others to keep the virus at bay without the need for costly distancing measures, notably another lockdown. This should be complemented by requirements for people to wear masks in crowded places, as well as investments in the health-care sector so that it is better prepared to cope with any future surge in infection rates, should it occur. Should the government need to restart the wage subsidy scheme, it should spread payments to ensure that they are made only if employees continue to be paid, and also increase the share of costs borne by employers over time to reduce the risk of workers being trapped in jobs that are no longer viable. Fiscal and monetary policy should remain expansionary to support the recovery, all the more so in a double-hit scenario. Swift implementation of the increase in infrastructure investment announced in January would strengthen demand and create jobs and, with a greater focus on green investment projects such as the development of recharging infrastructure for electric vehicles, would also have environmental benefits. Restarting the subsidy scheme for improving home insulation, which in the past contributed to better health outcomes, would also be an efficient means to stimulate demand and employment growth.

Norway

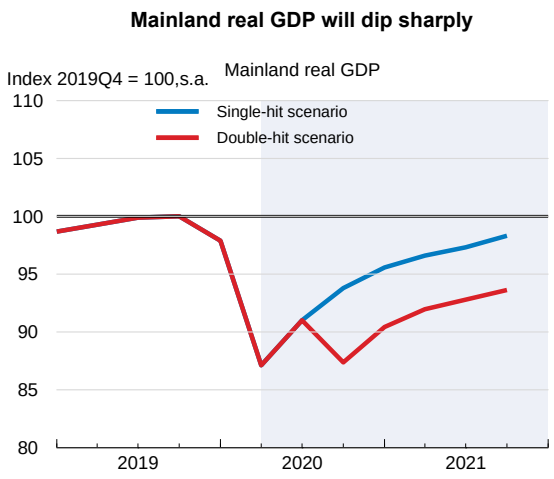
Norway's mainland GDP is projected to fall by 8.7% in 2020 if there is a new virus outbreak later in the year and associated shutdown (the double-hit scenario) and by 7% if this is avoided (the single-hit scenario). The recovery will be muted in both scenarios, and output will not reach pre-COVID-19 levels by the end of 2021. Similarly, unemployment will not have returned to pre-crisis levels. A sharp increase in the mainland's fiscal deficit will imply a substantial drawdown from the wealth fund. Weak demand will push consumer price inflation down.

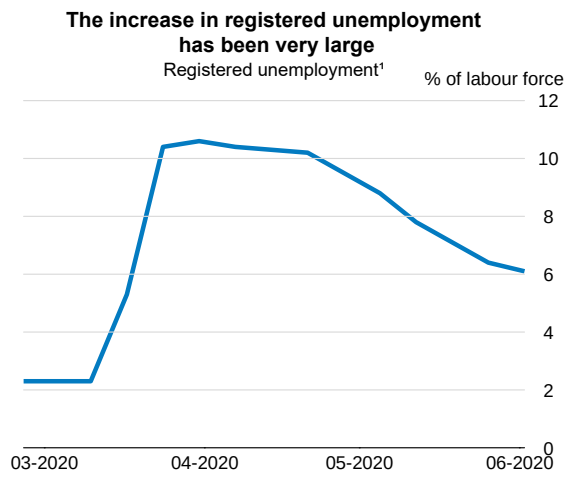
The monetary and fiscal policy response to COVID-19 has been prompt and capacity remains for further measures should these be required. The fiscal rule that links mainland deficits to wealth-fund returns should remain firmly in place as it allows ample room to support the recovery while also providing long-term fiscal guidance. An overly slow withdrawal of business-support measures should be avoided. Meanwhile, the oil market shock potentially brings opportunities to transition further towards a green economy.

The lifting of containment measures started in April

Norway's first cases of COVID-19 appeared in late February with a rapid rise thereafter. Overall, however, the scale of the pandemic has been comparatively limited, despite relatively large numbers in high-risk age groups -- a little under 20% of the population is aged 65 years and over.

Norway





1. The registered unemployment data includes temporary layoffs.
Source: OECD Economic Outlook 107 database aqnd Norwegian Labour and Welfare Administration (NAV).

StatLink https://doi.org/10.1787/888934139803

Norway: Demand, output and prices (double-hit scenario)

Norway: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices NOK billion	Percentage changes, volume (2017 prices)				
Mainland GDP at market prices[1]	2 691.6	2.0	2.2	2.3	-8.7	1.5
Total GDP at market prices	3 098.1	2.3	1.3	1.2	-7.5	1.3
Private consumption	1 411.4	2.2	1.9	1.5	-11.9	2.0
Government consumption	754.7	1.9	1.4	1.7	3.3	2.5
Gross fixed capital formation	780.8	2.6	2.8	6.1	-16.1	0.7
Final domestic demand	2 946.9	2.3	2.0	2.8	-9.1	1.8
Stockbuilding[2]	89.9	0.2	0.1	-0.2	-0.3	0.0
Total domestic demand	3 036.8	2.4	2.1	2.4	-9.2	1.7
Exports of goods and services	1 098.6	1.7	-0.2	1.5	-7.8	0.1
Imports of goods and services	1 037.3	1.9	1.9	5.2	-12.3	1.4
Net exports[2]	61.3	0.0	-0.7	-1.1	1.5	-0.4
Memorandum items						
GDP deflator	_	4.0	5.8	-0.6	-1.1	0.5
Consumer price index	_	1.9	2.7	2.2	0.6	0.6
Core inflation index[3]	_	1.7	1.2	2.6	2.0	0.7
Unemployment rate (% of labour force)	_	4.2	3.8	3.7	6.3	5.6
General government financial balance (% of GDP)	_	5.0	7.8	6.4	-2.4	-0.1
General government gross debt (% of GDP)	_	44.9	45.8	46.9	..	..
Current account balance (% of GDP)	_	4.7	7.1	3.9	1.7	0.9

1. GDP excluding oil and shipping.
2. Contributions to changes in real GDP, actual amount in the first column.
3. Consumer price index excluding food and energy.

Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138473

The principle measures to contain the spread of COVID-19 were enacted on 12 March. These included school closures, obligatory shutdown or severe restrictions of service sectors and travel restrictions. In addition, distancing rules were introduced and teleworking strongly encouraged. A lifting of restrictions began on 20 April with a start to reopen schools. Other de-restrictions have included allowing the reopening of businesses involving one-to-one contact, such as physiotherapists and hairdressers.

The economy has contracted sharply

The COVID-19 crisis is bringing an additional economic shock due to the sharp falls in the global price of and demand for oil. Indeed, the Norwegian government has imposed a schedule of oil-production ceilings as part of producers' coordinated efforts to limit supply. The crisis initially prompted a depreciation of over 15% in the krone-euro exchange rate and the Oslo All Share Index declined by around 30%. These downswings have been reversed only partially. The krone value of Norway's main wealth fund has remained comparatively stable as the impact of international equity price falls has largely been offset by the currency deprecation. In the labour market, the registered unemployment rate soared when confinement measures were introduced, mainly due to benefit applications by those temporarily laid off. The scale of the initial impact on output is emerging, with early estimates indicating that mainland GDP fell by 14% between and first and second half of March. Meanwhile, there are some early indicators of economic recovery now that confinement measures have been eased. For example, the rate of registered unemployment has been declining quite rapidly.

Norway: Demand, output and prices (single-hit scenario)

Norway: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices NOK billion	Percentage changes, volume (2017 prices)				
Mainland GDP at market prices[1]	2 691.6	2.0	2.2	2.3	-7.0	4.9
Total GDP at market prices	3 098.1	2.3	1.3	1.2	-6.0	4.7
Private consumption	1 411.4	2.2	1.9	1.5	-9.9	6.2
Government consumption	754.7	1.9	1.4	1.7	3.3	2.5
Gross fixed capital formation	780.8	2.6	2.8	6.1	-14.0	7.1
Final domestic demand	2 946.9	2.3	2.0	2.8	-7.6	5.4
Stockbuilding[2]	89.9	0.2	0.1	-0.2	-0.3	0.0
Total domestic demand	3 036.8	2.4	2.1	2.4	-7.7	5.2
Exports of goods and services	1 098.6	1.7	-0.2	1.5	-6.1	3.6
Imports of goods and services	1 037.3	1.9	1.9	5.2	-11.0	5.0
Net exports[2]	61.3	0.0	-0.7	-1.1	1.6	-0.5
Memorandum items						
GDP deflator	_	4.0	5.8	-0.6	-1.1	0.8
Consumer price index	_	1.9	2.7	2.2	0.8	1.3
Core inflation index[3]	_	1.7	1.2	2.6	2.0	1.2
Unemployment rate (% of labour force)	_	4.2	3.8	3.7	5.9	4.6
General government financial balance (% of GDP)	_	5.0	7.8	6.4	-1.4	1.4
General government gross debt (% of GDP)	_	44.9	45.8	46.9	..	..
Current account balance (% of GDP)	_	4.7	7.1	3.9	1.7	0.9

1. GDP excluding oil and shipping.
2. Contributions to changes in real GDP, actual amount in the first column.
3. Consumer price index excluding food and energy.

Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138492

The policy response has been substantial

Norges Bank has provided economic and financial-sector support through policy rate cuts and measures to support liquidity. The fiscal rule specifies that the quantitative target is achieved “over time”, thus giving flexibility for mainland deficits to expand in response to a downturn. Norway’s comparatively large public sector, comprehensive welfare system and correspondingly high taxation bring substantial automatic stabilisation in the event of an economic downturn. In addition, many active steps have been taken, which are estimated to widen the structural mainland budget deficit in 2020 by around 5% of mainland trend GDP. For households, the measures include tax deferrals, a temporary increase in length and pay out of unemployment benefits, and support for the self-employed and free-lancers. Measures for businesses have included the government stepping in earlier to pay the wages of those temporarily laid off, financial support to cover businesses’ fixed costs, social contribution cuts, and, credit and loan-guarantee support. Targeted support for a wide range of sectors has been announced, notably including the aviation and oil sectors.

Recovery in output and employment will be muted

For the projections it is assumed that the spring 2020 confinement measures, when fully operating, limited total economic activity to around 80% of pre-crisis levels, principally due to reduced activity in service sectors. This has brought sharp near-term declines in consumption, investment and external demand. A second round of confinement would depress activity in the final quarter of 2020 resulting in an 8.7% decline in annual GDP. Consumer price inflation is expected to fall initially. Recovery in output and employment

will be sluggish and not sufficient to achieve pre-crisis levels by the end of 2021. The absence of a further interruption to the recovery in the single-hit scenario will bring stronger outcomes by the end of the projection. The fiscal balance will deteriorate substantially in 2020 but partially recover in 2021 due to a rebound in tax revenues and the termination of temporary support measures.

Risks will remain elevated. In addition to the possibility of renewed COVID-19 outbreaks, prolongation of the low price of and weak demand for oil would have a profound effect on Norway's offshore and mainland economy. Norway's economic recovery will also depend strongly on the pace of the recovery in Europe. In financial markets, pre-crisis concerns for macro-financial stability linked to high levels of household debt have become more relevant.

Unwinding of support needs to be well timed

Support for aggregate demand will likely be required for some time and policymakers need to ensure contingency plans for a renewed COVID-19 outbreak. If the initial oil-market shock becomes a permanent downshift in production and exploration activity, additional support to affected regions and sectors will be required. This support could be linked to green investment and employment. Meanwhile, care will be needed in timing the unwinding of measures; if prolonged, the very favourable lay-off conditions and fixed-cost subsidy for businesses could start acting as a brake on the business-sector recovery.

Poland

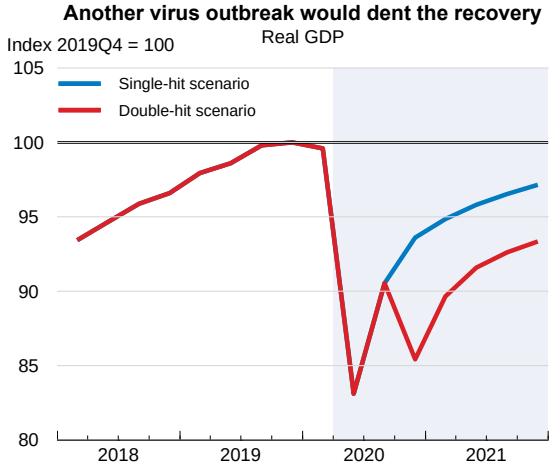
Strict confinement measures have taken a heavy toll on the economy. Assuming the current pandemic wanes progressively and further outbreaks are avoided (single-hit scenario), GDP is projected to contract by 7.4% in 2020, followed by a rebound of 4.8% in 2021. In the equally likely double-hit scenario, a second outbreak later in the year and renewed containment measures will lead to significantly weaker growth outcomes: a 9.5% contraction in 2020 and a 2.4% recovery in 2021. The government has launched sizeable financial support for businesses, largely non-refundable, and taken other extensive policy measures, notably for self-employed, temporary workers and small firms, which will help cushion employment losses and sustain household and business income. Yet, high unemployment will dent consumption growth, and lingering uncertainty is set to weigh on private investment, limiting the recovery and, especially in the double-hit scenario, rising risks of hysteresis effects.

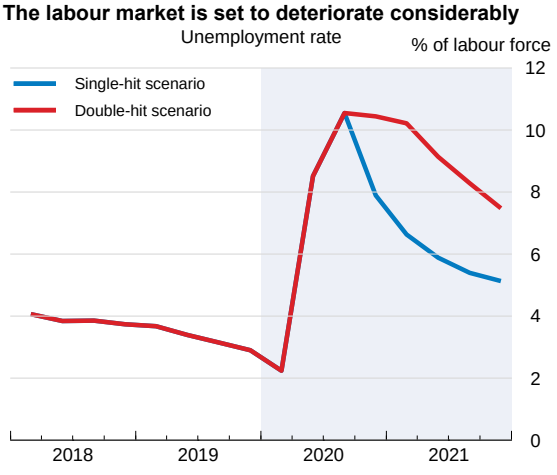
Early policy response helped limit the spread of the pandemic. In supporting the recovery, the government should pave the way for a more efficient re-allocation of resources by boosting public investment in greener energy and technologies, which would also help reduce high air pollution. Also, additional support measures should be targeted to vulnerable households and solvent firms affected by cash-flow problems, especially in sectors still subject to containment restrictions.

Swift introduction of confinement measures limited the contagion

Following the first positive cases in early March, Poland's daily new COVID-19 infections surged until the beginning of April. However, new cases broadly stabilised thereafter and deaths per inhabitant remained low. About 60% of active cases are concentrated in four districts, including the Warsaw region. Had the pandemic developed more widely, this would have put the health system under considerable strains since Poland's health spending per capita is only about 50% of the EU average and there is an acute shortage of health professionals. In addition, air pollution is substantial in Poland, which makes individuals vulnerable to acute respiratory illnesses.

Poland





Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934139822

Poland: Demand, output and prices (double-hit scenario)

Poland: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices PLN billion	Percentage changes, volume (2010 prices)				
GDP at market prices	1 861.1	4.9	5.3	4.1	-9.5	2.4
Private consumption	1 088.4	4.5	4.5	3.8	-11.6	2.6
Government consumption	333.1	2.9	3.7	4.9	5.4	4.3
Gross fixed capital formation	335.0	4.0	9.4	7.2	-13.3	2.7
Final domestic demand	1 756.5	4.1	5.3	4.7	-8.7	3.0
Stockbuilding[1]	29.5	0.8	0.5	-1.4	-0.8	-0.4
Total domestic demand	1 786.0	4.9	5.6	3.0	-9.4	2.5
Exports of goods and services	971.4	9.5	7.0	4.7	-11.7	3.9
Imports of goods and services	896.3	9.8	7.6	2.7	-12.8	3.9
Net exports[1]	75.1	0.3	0.0	1.2	0.0	0.2
Memorandum items						
GDP deflator	_	1.9	0.9	2.8	3.0	1.0
Consumer price index	_	2.1	1.8	2.2	2.9	1.2
Core inflation index[2]	_	0.7	0.8	1.9	2.4	1.2
Unemployment rate (% of labour force)	_	4.9	3.9	3.3	7.9	8.8
General government financial balance (% of GDP)	_	-1.5	-0.2	-0.7	-11.3	-10.3
General government debt, Maastricht definition (% of GDP)	_	50.6	49.0	46.1	60.2	68.8
Current account balance (% of GDP)	_	0.0	-1.0	0.5	0.9	0.4

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138511

On 8 March, in the wake of the first confirmed cases, the authorities took rapid action to promote remote working, banned mass events, suspended schools and universities and progressively closed all cultural, accommodation, food and entertainment venues, together with shopping centres. In mid-March, international air and rail passenger traffic came to a halt and border controls were reinstated. A few days later, the government declared a state of emergency and implemented tighter confinement measures. The swift introduction of these measures helped limit the extent of the contagion, leading the authorities to ease many restrictions in May. Under strict sanitary standards and depending on local conditions, shopping centres, cultural institutions, hotels, restaurants and hairdressers were gradually allowed to reopen, as well as nurseries, pre-schools and lower primary grades. The government also authorised a partial opening of theatres, cinemas and sport centres and public gatherings of up to 150 people in early June.

The economy weakened substantially

Following the national lockdown, consumer and business confidence dropped sharply in April to below levels observed during the global financial crisis but improved marginally in May. Accommodation and food services and the transportation sector have been hit particularly hard. Mobility to retail shops and restaurants decreased by 28% compared to a normal period and retail sales dropped by 23% year-on-year in April. Small and micro enterprises, with little financial reserves, are particularly at risk. Many of them decreased wages to reduce short-term losses and maintain liquidity without having to resort to redundancies. Yet, in April, the business employment decline was the largest since November 2009, and households and firms expect a surge in unemployment in the coming months, despite a cut in the supply of foreign workers due to border restrictions.

Poland: Demand, output and prices (single-hit scenario)

Poland: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices PLN billion	Percentage changes, volume (2010 prices)				
GDP at market prices	1 861.1	4.9	5.3	4.1	-7.4	4.8
Private consumption	1 088.4	4.5	4.5	3.8	-9.1	4.9
Government consumption	333.1	2.9	3.7	4.9	5.3	4.4
Gross fixed capital formation	335.0	4.0	9.4	7.2	-10.6	6.1
Final domestic demand	1 756.5	4.1	5.3	4.7	-6.7	5.0
Stockbuilding[1]	29.5	0.8	0.5	-1.4	-0.8	-0.1
Total domestic demand	1 786.0	4.9	5.6	3.0	-7.4	4.9
Exports of goods and services	971.4	9.5	7.0	4.7	-9.0	10.4
Imports of goods and services	896.3	9.8	7.6	2.7	-10.1	10.7
Net exports[1]	75.1	0.3	0.0	1.2	0.2	0.4
Memorandum items						
GDP deflator	_	1.9	0.9	2.8	3.0	1.4
Consumer price index	_	2.1	1.8	2.2	3.0	1.7
Core inflation index[2]	_	0.7	0.8	1.9	2.4	1.8
Unemployment rate (% of labour force)	_	4.9	3.9	3.3	7.3	5.8
General government financial balance (% of GDP)	_	-1.5	-0.2	-0.7	-9.4	-7.1
General government debt, Maastricht definition (% of GDP)	_	50.6	49.0	46.1	57.3	61.6
Current account balance (% of GDP)	_	0.0	-1.0	0.5	1.0	0.8

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138530

Policy support is widespread

The anti-crisis package foresees discretionary measures worth about 3.2% of GDP in 2020. In a welcome move, it aims at preserving jobs by sustaining business liquidity, boosting healthcare spending and encouraging infrastructure investment during the recovery. The announced measures, which include tax deferrals, targeted exemptions from social security payments and wage subsidies, extend income support to numerous self-employed and temporary workers. To avoid widening inequalities due to the pandemic, the government is set to enhance transfers to local authorities and postpone loan repayments, for up to three months, for individuals having lost their job or main source of income. It also plans to raise unemployment benefits and introduce a 3-month solidarity allowance payable to the most disadvantaged jobseekers. A subsidised micro-loan facility supports the cash-flows of the smallest firms, while a loan guarantee scheme cover loans up to PLN 100 billion (4.4% of GDP) for all firms with no tax arrears, in proportion to their size. Financed through state-guaranteed bonds issued by the Polish Development Fund, the scheme could disburse around 60% of its envelope as grants, provided firms do not fire staff during the loan period. In addition, the central bank cut the policy rate to 0.1% at the end of May, strengthened banks' liquidity through reduced reserve requirements, started an asset purchase programme – including state-guaranteed debt securities – and introduced bank lending support programme. These measures eased monetary conditions and smoothed the financing of the fiscal anti-crisis measures.

The path to recovery is subject to many risks

In the scenario of a single pandemic outbreak (single-hit scenario), GDP growth will be limited to 4.8% in 2021, after a deep recession in 2020. The end of the two-month lockdown in May will allow activity to resume only gradually, with full opening of transport, hospitality and recreational services expected only over summer. Postponed consumption and delayed investment decisions will support the recovery, but the sharp rise in unemployment and uncertainties around the extent of global value chain destructions will dent household and business confidence. The double-hit scenario of a second pandemic outbreak in the final quarter of the year, and its associated containment measures, will further weaken the recovery (to 2.4% in 2021) and increase the risks of hysteresis effects due to longer unemployment spells and rising insolvencies, notably among self-employed and temporary workers. In addition, a slower euro area recovery, together with a more pronounced deterioration of the outlook for the global automotive industry and business services, will reduce export prospects in both scenarios.

Well-targeted policies will be key to an inclusive recovery

The authorities will need to ensure that the business support measures are effective for both large and small firms. The large share of micro-firms, often with low productivity, would be particularly vulnerable if containment measures had to be reinstated during a second outbreak. Ensuring the effective take-up of short-term work schemes by micro-firms may be a challenge and this could be complemented by further cash payments. Suspending the Sunday ban on retail trade and deliveries would also help the retail sector and raise the supply of essential goods for households. If the crisis were to be prolonged and banks' profitability were to decline further (banks have agreed to postpone loan repayments for both consumers and businesses), the cancelation (or suspension) of the banking tax should be envisaged. Further fiscal stimulus through temporary and well-targeted programmes may be required to support the recovery. Bringing forward needed infrastructure and green investment would boost future productivity growth, notably by tackling widespread air pollution, which severely harms people's health.

Portugal

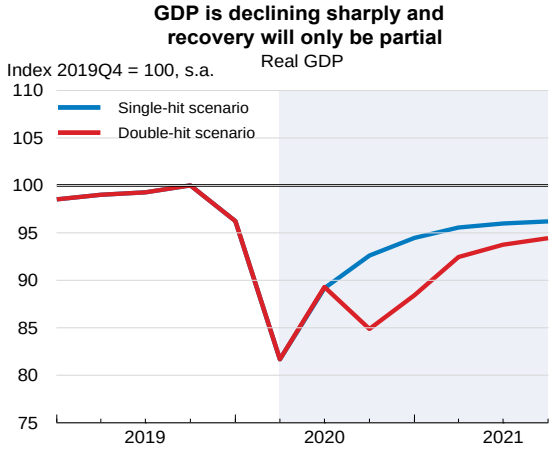
The economy is projected to shrink by 11.3% in 2020, should a second pandemic outbreak hit at the end of 2020 (the double-hit scenario). Assuming a single wave of the pandemic (the single-hit scenario), GDP is expected to decline by 9.4% in 2020, with a rebound of 6.3% in 2021. In the double-hit scenario, the recovery will be slower due to prolonged export weaknesses, heightened uncertainty, additional bankruptcies, and prolonged unemployment spells. By the end of 2021, public debt (Maastricht definition) is expected to increase to 131% of GDP if the virus outbreak subsides by this summer and 138% of GDP if there is a second wave later this year.

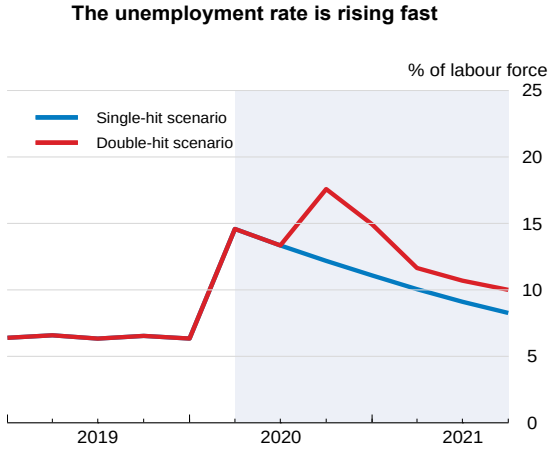
The government has implemented a number of measures to support firms and households and announced further measures to revamp the economy after the general confinement. The short-term work scheme is containing the rise in unemployment. Tax and social security contribution deferrals alongside credit guarantees provide financial support to companies. The central bank provides ample liquidity along with eased macro-prudential rules. If the crisis wears on, additional measures need to be considered. Debt reduction policies can help firms remain viable in the long term. Further revamping out-of-court insolvency processes could speed up debt resolution in case of substantial loan foreclosures.

Swift policy actions helped to contain the COVID-19 pandemic

The first official case was reported on 2 March. Following a rapid rise in the number of cases, the state of emergency was declared on 18 March. The North and Lisbon regions have been the most affected regions. Emergency measures to scale up acute care capacity allowed hospitals to cope with patients. In addition, public procurement and hiring rules were eased, the purchase of relevant medical goods was centralised and public campaigns were introduced, among others, to tackle mental health and domestic violence.

Portugal





Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934139841

Portugal: Demand, output and prices (double-hit scenario)

Portugal: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices EUR billion	Percentage changes, volume (2016 prices)				
GDP at market prices	186.5	3.5	2.6	2.2	-11.3	4.8
Private consumption	122.0	2.1	2.9	2.2	-12.3	6.8
Government consumption	32.8	0.2	0.9	1.1	3.8	1.1
Gross fixed capital formation	28.9	11.5	5.8	6.6	-14.7	2.4
Final domestic demand	183.7	3.2	3.0	2.8	-9.9	4.9
Stockbuilding[1]	0.6	0.1	0.1	0.0	-0.6	0.0
Total domestic demand	184.3	3.4	3.1	2.8	-10.4	4.9
Exports of goods and services	75.0	8.4	4.5	3.7	-18.6	3.4
Imports of goods and services	72.8	8.1	5.7	5.3	-16.6	3.7
Net exports[1]	2.1	0.2	-0.5	-0.7	-0.9	-0.1
Memorandum items						
GDP deflator	_	1.5	1.6	1.7	1.7	0.3
Harmonised index of consumer prices	_	1.6	1.2	0.3	0.1	0.0
Harmonised index of core inflation[2]	_	1.2	0.8	0.4	0.1	0.1
Unemployment rate (% of labour force)	_	8.9	7.0	6.5	13.0	11.8
General government financial balance3 (% of GDP)	_	-3.0	-0.4	0.2	-9.5	-7.4
General government gross debt (% of GDP)	_	145.1	138.4	137.6	159.8	157.8
General government debt, Maastricht definition (% of GDP)	_	126.1	122.0	117.7	140.0	138.0
Current account balance (% of GDP)	_	1.3	0.4	-0.1	-0.1	-0.1

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
3. Based on national accounts definition.

Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138549

In order to contain the spread of the virus, Portugal adopted precautionary measures early on. Restrictions on movement within the country and across borders were introduced in coordination with EU partners. Additionally, public and cultural events were suspended. Moreover, face-to-face education was suspended and online classes introduced, non-essential shops closed and a general duty of confinement of the population was put in place on 19 March when the country had just around 400 confirmed cases. Since 4 May, confinement measures are being progressively eased after a careful assessment of the epidemiological situation.

The impact on economic activity and employment is high

Consumer and industrial confidence indicators fell significantly in March and hit record lows in April. The pandemic affects most economic activities, albeit with large differences across sectors. According to a recent enterprise survey, the construction sector only registered a mild reduction of economic activity, while smaller companies and those operating in the hospitality sector were affected the most. Despite the availability of credit guarantees, the share of companies facing liquidity shortages is high. In March, tourism activity dropped by 58.5% compared to a year earlier, the largest drop since 2013. The number of firms using the short-term work scheme has increased significantly, as has the number of unemployed. Equity prices have dropped sharply while sovereign spreads have increased.

Portugal: Demand, output and prices (single-hit scenario)

Portugal: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices EUR billion	Percentage changes, volume (2016 prices)				
GDP at market prices	186.5	3.5	2.6	2.2	-9.4	6.3
Private consumption	122.0	2.1	2.9	2.2	-10.0	8.2
Government consumption	32.8	0.2	0.9	1.1	3.1	-1.2
Gross fixed capital formation	28.9	11.5	5.8	6.6	-10.6	8.8
Final domestic demand	183.7	3.2	3.0	2.8	-7.8	6.5
Stockbuilding[1]	0.6	0.1	0.1	0.0	-0.6	0.0
Total domestic demand	184.3	3.4	3.1	2.8	-8.4	6.4
Exports of goods and services	75.0	8.4	4.5	3.7	-15.5	8.2
Imports of goods and services	72.8	8.1	5.7	5.3	-13.3	8.6
Net exports[1]	2.1	0.2	-0.5	-0.7	-1.0	-0.2
Memorandum items						
GDP deflator	_	1.5	1.6	1.7	1.7	0.4
Harmonised index of consumer prices	_	1.6	1.2	0.3	0.2	0.2
Harmonised index of core inflation[2]	_	1.2	0.8	0.4	0.2	0.3
Unemployment rate (% of labour force)	_	8.9	7.0	6.5	11.6	9.6
General government financial balance3 (% of GDP)	_	-3.0	-0.4	0.2	-7.9	-4.7
General government gross debt (% of GDP)	_	145.1	138.4	137.6	155.7	151.2
General government debt, Maastricht definition (% of GDP)	_	126.1	122.0	117.7	135.9	131.4
Current account balance (% of GDP)	_	1.3	0.4	-0.1	-0.2	-0.1

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
3. Based on national accounts definition.

Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138568

Policy support to the economy is extensive

The government has introduced a wide range of measures to shore up the economy, including a post--COVID fiscal package. As a first response to the pandemic, discretionary fiscal spending, public guarantees for loans and the deferral of tax payments (amounting to 0.9%, 3.3% and 3.7% of GDP respectively) were introduced. In order to protect the most vulnerable, short-term work schemes, temporary reductions in employer social contributions, and support schemes for the self-employed were implemented. The supervisory authority lowered the countercyclical capital buffer and suspended the mortgage amortisation requirement in the macroprudential recommendation on new credit agreements for consumers. Other firm-specific measures include a special training programme to increase access to skills. This should contribute to the economic recovery in the medium-term. In addition, interest free loans are available to meet rent payment obligations. Notable policy measures to boost demand and investment after the confinement include the creation of a development bank, the extension of the income support measures for households and of moratorium and credit lines to companies, and further increasing the capacity of the National Health Services.

The recovery will be slow

The confinement period of about two months implies a reduction of economic activity of 20% on average in the second quarter of 2020 compared to a normal period. Lockdown measures started to ease in May, but the recovery will be affected by lower real disposable income, higher precautionary saving and much lower tourism exports. Weakness in demand will pull down inflation, investment, and employment. In the scenario with a second outbreak of the pandemic, a further, albeit more limited, tightening of containment measures in the fourth quarter this year, GDP is projected to fall by 11.3% in 2020, with more severe consequences due to higher bankruptcies, longer unemployment spells and heightened uncertainty, further delaying investment decisions. In the absence of a second virus outbreak, GDP will fall by 9.4% in 2020, recovering only partially from the adverse economic impact of lockdown measures in 2021.

Downside risks have intensified. Public debt was declining but still high before the pandemic (118% of GDP in 2019). Additional spending will turn the fiscal surplus into a sizeable deficit. Combined with the deep economic contraction, this could increase public debt in 2021 to 131% of GDP (Maastricht definition) in the single-hit scenario and up to 138% of GDP in the double-hit scenario. Private sector financial stability risks could increase again. A slow recovery could trigger a large wave of foreclosures in the most affected sectors with spillover effects to the financial sector via a significant rise in the non-performing loans ratio which remains one of the highest in the OECD.

Additional policy action can help to support the economy

The government has implemented a number of measures to support the economy and announced a further stimulus package to facilitate a swift recovery. However, additional fiscal stimulus may be required. In event of a second pandemic outbreak, increasing the net replacement rate of the temporary employment scheme could further support household income and replace other income support schemes (i.e. rent repayment schemes). In order to avoid substantial loan foreclosures, it is crucial to complement public loan guarantees with other policy actions to ensure firms' long-term economic viability: for example, part of the tax deferrals may need to be converted into tax cuts to help firms facing bankruptcy risks. Debt reduction policies could also be envisaged (i.e. by converting loans into grants), which will not only avoid foreclosure waves, but also avoid debt overhang problems that might hamper investment. Revamping out-of-court insolvency processes could speed up debt resolution in case of substantial loan foreclosure. In order to reduce air pollution and related health risks, the use public transport and the development of new shared-transport solutions should be encouraged.

Romania

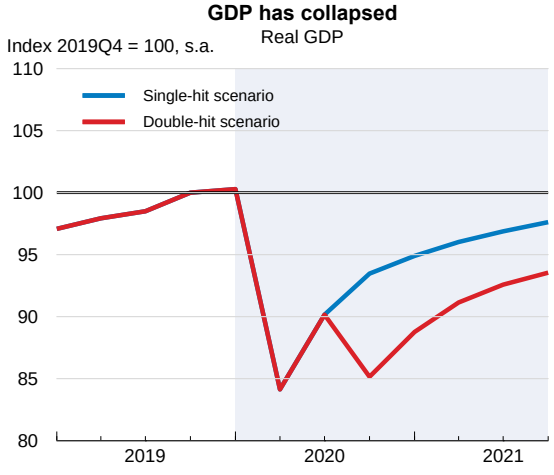
GDP is projected to decrease by 8.6% in 2020, should a second virus outbreak take place by the end of 2020, while it would fall by 6.5% should a second wave of the pandemic be avoided. These negative shocks will have a long-lasting impact on the economy in both scenarios, with GDP remaining below its pre-crisis level at the end of 2021. The recovery will be slower in case of a second outbreak due to a more pronounced deterioration of the labour market and steeper losses in productive capacity.

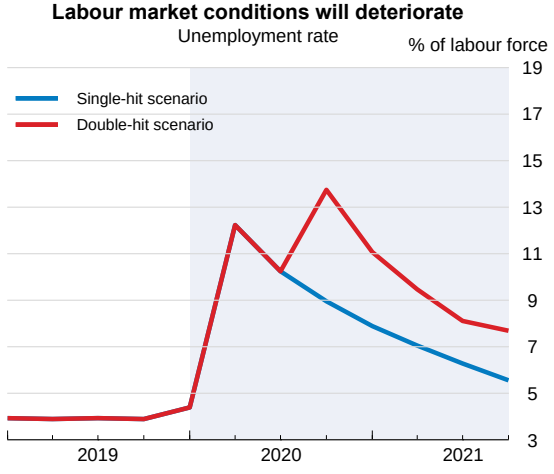
Expanding policy measures to sustain the economy and prevent a surge in poverty is urgent. The social safety net needs strengthening. Investment in infrastructure and efforts to reduce the administrative burden on businesses are key to accelerate the recovery and reap the benefits of a potential relocation of production to Romania. In case of a second virus outbreak, introducing a short-time work scheme and delaying the payment of social contributions would help to preserve employment. Air pollution has been an aggravating factor of the pandemic and taking measures to reduce it is urgent.

Containment measures have reduced risks

The first COVID-19 case in Romania was recorded on 26 February. The pandemic then spread rapidly, with around one-third of all cases located in Bucharest and Suceava. Shortages of medical staff, protective material, and adequate procedures slowed the containment of the pandemic. Large public investment in medical equipment has been implemented in response to the sanitary crisis, but is deemed insufficient to limit infection risks in care units.

Romania





Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934139860

Romania: Demand, output and prices (double-hit scenario)

Romania: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices RON billion	Percentage changes, volume (2010 prices)				
GDP at market prices	765.1	7.1	4.4	4.1	-8.6	1.8
Private consumption	478.2	10.0	7.3	5.9	-8.2	1.8
Government consumption	115.4	4.2	2.1	6.4	3.6	2.0
Gross fixed capital formation	175.0	3.6	-1.2	18.2	-18.5	-0.5
Final domestic demand	768.7	7.6	4.7	8.5	-8.6	1.4
Stockbuilding[1]	3.5	0.8	1.0	-3.0	-0.5	0.0
Total domestic demand	772.2	8.4	5.7	5.6	-9.0	1.4
Exports of goods and services	315.1	7.6	6.2	4.6	-13.2	3.8
Imports of goods and services	322.2	10.8	9.1	8.0	-13.9	2.7
Net exports[1]	- 7.1	-1.4	-1.4	-1.7	0.8	0.3
Memorandum items						
GDP deflator	_	4.7	6.3	6.9	3.5	1.2
Consumer price index	_	1.3	4.6	3.8	1.9	0.9
Core consumer price index[2]	_	1.5	2.8	3.2	2.5	0.9
Unemployment rate (% of labour force)	_	4.9	4.2	3.9	10.2	9.1
General government financial balance (% of GDP)	_	-2.6	-2.9	-4.3	-9.1	-8.8
General government gross debt (% of GDP)	_	45.1	43.6	44.2	55.8	62.0
General government debt, Maastricht definition (% of GDP)	_	35.1	34.7	35.2	46.8	53.0
Current account balance (% of GDP)	_	-2.8	-4.4	-4.6	-3.5	-3.4

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138587

Strict containment measures were adopted after mid-March, including travel restrictions from and to high-risk countries, the closure of all educational institutions and non-essential shops. A nation-wide lockdown started on 25 March with a duration of around 8 weeks. The biggest COVID-19 hotspots were placed under complete quarantine. Since 15 May, confinement measures have been progressively eased, with public gatherings and inter-city travel restricted during the first reopening phase.

Economic activity has been hit hard

The COVID-19 pandemic has entailed a notable contraction of the economy mainly due to lockdown measures and high reliance on trade and investment from Western European countries. Indicators point to a significant and widespread decline in turnover and confidence. The automotive and tourism sectors almost fully stopped operating during the lockdown, while demand for transport, personal, accommodation and food services, which account for a relatively large share of total value added, has collapsed. About 15% of job contracts have been suspended and 4% terminated during the confinement. Financial market sentiment has worsened and 10-year government bond yields have increased, signalling rising risk levels and lower investor confidence.

Romania: Demand, output and prices (single-hit scenario)

Romania: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices RON billion	Percentage changes, volume (2010 prices)				
GDP at market prices	765.1	7.1	4.4	4.1	-6.5	4.7
Private consumption	478.2	10.0	7.3	5.9	-5.9	4.4
Government consumption	115.4	4.2	2.1	6.4	3.5	1.4
Gross fixed capital formation	175.0	3.6	-1.2	18.2	-14.8	7.2
Final domestic demand	768.7	7.6	4.7	8.5	-6.4	4.5
Stockbuilding[1]	3.5	0.8	1.0	-3.0	-0.5	0.0
Total domestic demand	772.2	8.4	5.7	5.6	-6.8	4.5
Exports of goods and services	315.1	7.6	6.2	4.6	-10.9	8.0
Imports of goods and services	322.2	10.8	9.1	8.0	-11.4	7.1
Net exports[1]	- 7.1	-1.4	-1.4	-1.7	0.6	0.1
Memorandum items						
GDP deflator	_	4.7	6.3	6.9	3.5	1.7
Consumer price index	_	1.3	4.6	3.8	1.9	1.5
Core consumer price index[2]	_	1.5	2.8	3.2	2.6	1.4
Unemployment rate (% of labour force)	_	4.9	4.2	3.9	9.0	6.7
General government financial balance (% of GDP)	_	-2.6	-2.9	-4.3	-8.0	-6.6
General government gross debt (% of GDP)	_	45.1	43.6	44.2	54.2	57.3
General government debt, Maastricht definition (% of GDP)	_	35.1	34.7	35.2	45.2	48.4
Current account balance (% of GDP)	_	-2.8	-4.4	-4.6	-3.7	-3.9

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138606

Support measures are not reaching the most vulnerable

Monetary policy has limited the risk of a sizable tightening in financial conditions and sustained credit supply. The National Bank of Romania reduced the policy rate by 0.5 percentage point at the end of March and by 0.25 percentage point on 2 June, to 1.75%, committed to provide liquidity to financial institutions, and announced the purchase of government bonds on the secondary market. A temporary moratorium on debt repayments has been introduced for firms and individuals affected by the pandemic together with a relaxation of macro-prudential regulation for credit institutions. A fiscal package amounting to around 1.2% of GDP, partly financed with EU funds, includes wage subsidies for employees on temporary lay-off and increased spending on medical equipment. Other support measures comprise state loan guarantees with subsidised interest rates for SMEs, tax deferrals, and the extension of payment deadlines for utility services and rents. The expected impact of the measures on the economy is relatively low, as most end shortly after the lockdown. They will not reach the most vulnerable people, especially those detached from the labour market or operating in the informal sector. The government has announced a new fiscal package starting from June, but details on the measures were not available at the time of writing.

The economic outlook is highly uncertain

The COVID-19 pandemic will take a heavy toll on the economy. If a second virus wave takes place in the autumn (the double-hit scenario), GDP is projected to decrease by 8.6% in 2020 and to recover only slowly in 2021. Pressure on firms already weakened by the first shock will increase. Job destruction, decreasing wages, and reduced remittances will curtail household purchasing power. Weaker domestic demand will

lead to cash-flow problems, threatening the survival of credit-constrained firms. While the deterioration of the international environment and disruptions to supply chains will weigh on exports, the current account balance will improve on the back of a sharp fall in imported goods. The fiscal deficit will deteriorate significantly, reaching around 9% of GDP in 2020 and pushing public debt above 50% of GDP in 2021. In the absence of a second outbreak (the single-hit scenario), GDP growth will fall by 6.5%, recovering only partially from the adverse economic impact of lockdown measures in 2021. Despite relatively weak automatic stabilisers and low fiscal stimulus, public debt is projected to reach around 48% of GDP in 2021. Downside risks include the loss of foreign investors' confidence, resulting in a strong deterioration of financial conditions. By contrast, the pandemic could encourage the shortening of supply chains and a relocation of activity from Asia to Eastern Europe, potentially stimulating foreign direct investment and job creation.

Policy action could limit long-lasting damages to the economy

To mitigate the resurgence of poverty, access to social benefits should be extended and cash transfers be considered for low-income families. In case of a second virus outbreak, delaying the payment of social security contributions and establishing a short-time work scheme could support viable firms temporarily affected by the pandemic and preserve employment. A free and reactive credit mediation scheme to help companies – particularly SMEs – experiencing difficulties in accessing loans and dealing with cash-flow problems should be set up. Improving infrastructure, especially in transportation where needs are large, will be key to speed up the recovery, stimulate business investment, and meet environmental challenges. Reducing air pollution is urgent as it increases health risks. Freeing up the necessary fiscal space will require revising public spending priorities and postponing the pension reform, which – if implemented - would add more than 2 percentage points of GDP to the already high fiscal deficit and rising public debt in 2021.

Slovak Republic

The economy will be hit hard by the current crisis, even if the country has so far successfully managed to contain the pandemic. Plummeting world trade and massive disruption to global value chains will hurt the export-dependent manufacturing sector. In case of a new outbreak later this year (the double-hit scenario), GDP will fall by more than 11% in 2020. GDP will contract by 9.3% if the current outbreak subsides and another wave is avoided (the single-hit scenario). The recovery will be hampered by heightened uncertainty and high unemployment.

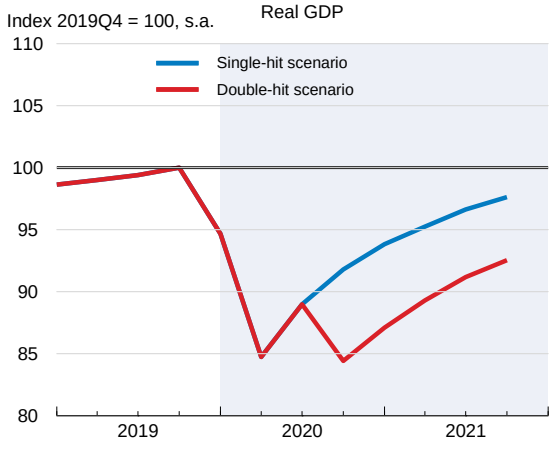
The fiscal measures put in place will cushion the impact of the downturn to some extent. Various support programmes provide additional transfers to households, the self-employed and firms. However, effectively supporting people and the economy will require strengthening public employment services and simplifying claim procedures to ensure that benefits are paid without delay. Monitoring and assessing these measures is crucial as support will need to expand and adapt, if the economic costs of the current crisis turn out to be longer lasting. Although relatively low debt provides fiscal space to support the economy, a clear medium-term fiscal strategy should be formulated and communicated. In this regard, a pension reform would be needed to help ensure long-term fiscal sustainability.

The authorities have acted quickly to contain the pandemic

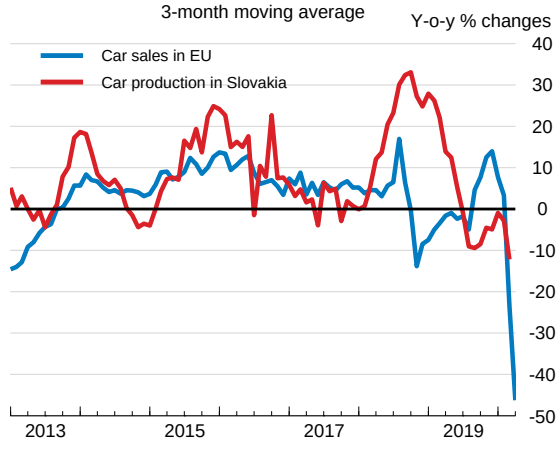
The spread of the COVID-19 pandemic has been limited in the Slovak Republic. The first COVID-19 case was reported on 6 March. The number of new infections stabilised relatively quickly and the number of hospitalised patients has remained low, helping the healthcare system to cope with the pandemic. The first death was reported only at the end of March and the number of deaths per population has remained relatively low.

Slovak Republic

A second virus outbreak would hamper the recovery



Car production faces a significant drop in demand



Source: OECD Economic Outlook 107 database; OECD Main Economic Indicators (MEI) database; and National Bank of Slovakia.

StatLink https://doi.org/10.1787/888934139879

Slovak Republic: Demand, output and prices (double-hit scenario)

Slovak Republic: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	81.0	3.0	3.9	2.4	-11.1	2.1
Private consumption	44.6	4.5	4.1	2.1	-9.2	5.2
Government consumption	15.3	1.0	0.2	4.6	3.9	3.2
Gross fixed capital formation	17.0	3.5	2.6	6.8	-32.2	-7.2
Final domestic demand	77.0	3.5	3.0	3.6	-11.6	2.6
Stockbuilding[1]	1.7	-0.2	0.6	-0.3	-0.2	0.0
Total domestic demand	78.6	3.3	3.5	3.2	-11.5	2.6
Exports of goods and services	76.0	3.6	5.3	1.7	-19.0	2.4
Imports of goods and services	73.6	3.9	4.9	2.6	-19.5	3.0
Net exports[1]	2.4	-0.2	0.5	-0.7	0.3	-0.4
Memorandum items						
GDP deflator	_	1.2	2.0	2.6	1.6	1.3
Harmonised index of consumer prices	_	1.4	2.5	2.8	1.1	1.1
Harmonised index of core inflation[2]	_	1.4	2.0	2.0	1.3	1.1
Unemployment rate (% of labour force)	_	8.1	6.5	5.8	9.6	9.2
General government financial balance (% of GDP)	_	-1.0	-1.0	-1.3	-10.5	-8.1
General government gross debt (% of GDP)	_	65.7	63.6	63.4	78.4	84.7
General government debt, Maastricht definition (% of GDP)	_	51.3	49.5	48.0	63.1	69.3
Current account balance (% of GDP)	_	-1.9	-2.6	-2.9	-2.3	-3.5

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138625

The authorities moved quickly to introduce distancing measures, at a time when the country had only a few confirmed cases. A state of emergency was declared on 12 March, ordering the closure of all non-essential shops and banning mass events. Wearing masks became compulsory in public, and international borders were closed.

The economy is contracting at a fast pace

The containment measures coupled with widespread uncertainty have led to an abrupt decline in economic activity, with particularly acute effects on sectors that rely on social interactions, such as tourism, accommodation and restaurants. In April, year-on-year electricity consumption decreased by more than 10% and freight transport fell by more than 20%. Moreover, massive disruption to global value chains, a fall in demand and concerns over workers' safety forced all four major automotive companies to temporarily suspend production for around one month. Car sales in the European Union, the main export market of the Slovak Republic, have plummeted. This has a significant effect on the economy as the automotive sector is the largest industry, accounting for almost half of the country's total industrial production.

Slovak Republic: Demand, output and prices (single-hit scenario)

Slovak Republic: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	81.0	3.0	3.9	2.4	-9.3	6.4
Private consumption	44.6	4.5	4.1	2.1	-7.3	8.3
Government consumption	15.3	1.0	0.2	4.6	3.9	2.9
Gross fixed capital formation	17.0	3.5	2.6	6.8	-28.9	7.3
Final domestic demand	77.0	3.5	3.0	3.6	-9.8	6.8
Stockbuilding[1]	1.7	-0.2	0.6	-0.3	-0.2	0.0
Total domestic demand	78.6	3.3	3.5	3.2	-9.7	6.7
Exports of goods and services	76.0	3.6	5.3	1.7	-15.7	13.9
Imports of goods and services	73.6	3.9	4.9	2.6	-16.3	14.3
Net exports[1]	2.4	-0.2	0.5	-0.7	0.4	-0.1
Memorandum items						
GDP deflator	_	1.2	2.0	2.6	1.6	1.1
Harmonised index of consumer prices	_	1.4	2.5	2.8	1.3	1.2
Harmonised index of core inflation[2]	_	1.4	2.0	2.0	1.4	1.3
Unemployment rate (% of labour force)	_	8.1	6.5	5.8	8.9	7.0
General government financial balance (% of GDP)	_	-1.0	-1.0	-1.3	-9.3	-6.2
General government gross debt (% of GDP)	_	65.7	63.6	63.4	76.2	78.5
General government debt, Maastricht definition (% of GDP)	_	51.3	49.5	48.0	60.8	63.1
Current account balance (% of GDP)	_	-1.9	-2.6	-2.9	-2.2	-3.0

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138644

Government support to the economy is significant

The government has announced a number of measures, amounting to 5.6% of GDP, including within-year tax and social contribution deferrals and loan guarantees, to mitigate the depth and length of the recession. A large part of the package aims at protecting jobs by maintaining existing employer-employee relationships. The government has been providing subsidies to the self-employed and for employees in companies that have recorded a significant drop in revenues. Other measures include a short-term work scheme, temporary reductions in employer social security contributions for companies that remain closed due to the pandemic and income support of workers who lose their jobs, including those in non-standard forms of employment. ECB measures will help to preserve bank lending and liquidity in the euro area. To further ease liquidity pressures, the government measures also include loan guarantees and temporary deferments of mortgage payments. The central bank has kept the counter-cyclical capital buffer at 1.5%, repealing its previous decision to increase it to 2%.

The recovery will start early, but will be slow

In both scenarios, economic activity is estimated to have picked up in May as a low infection rate has allowed the opening of the economy much sooner than expected. However, high uncertainty will weigh on consumption and investment decisions. In addition, the Slovak export-oriented economy will be further slowed by reorganisation of industrial supply chains and uncoordinated recovery in other countries. GDP is projected to fall 11.1% in the double-hit scenario, as a new COVID-19 outbreak later in the year

heightens uncertainty and further reduces economic activity. In the single-hit scenario, GDP is projected to fall by more than 9%.Unemployment will increase steeply, but its rise will be mitigated to some extent by government support. General government debt (Maastricht definition) will increase to 63% of GDP in the single-hit scenario and to 69% of GDP in the double-hit scenario. The supply shock is likely to hold up prices of some items, but substantial slack in the economy should keep headline CPI inflation subdued throughout the projection period.

Support to households and companies should be deployed effectively

Keeping infection rates low as lockdown measures gradually ease will require strengthening the so-called Test-Trace-Treat strategy, which includes preparing procurement and logistics arrangements to scale up testing, as well as effective contact tracing with targeted quarantine. The government has rightly implemented immediate employment and social policy responses to address the negative consequences of the crisis. However, the substantial increase in the number of applications for different benefits poses significant challenges for public employment services, which can lead to delays in compensation and hamper programme effectiveness. Strengthening public employment services and streamlining procedures will be crucial to ensure timely payment of compensation as numerous firms and households face severe liquidity constraints. Close monitoring of implementation and regular assessment of programme design (including targeting and coverage) is key, as further policy responses may be required. Going forward, while a relatively low level of debt provides fiscal space, a pension reform is much needed to help contain rising age-related spending and improve medium and long-term fiscal sustainability.

Slovenia

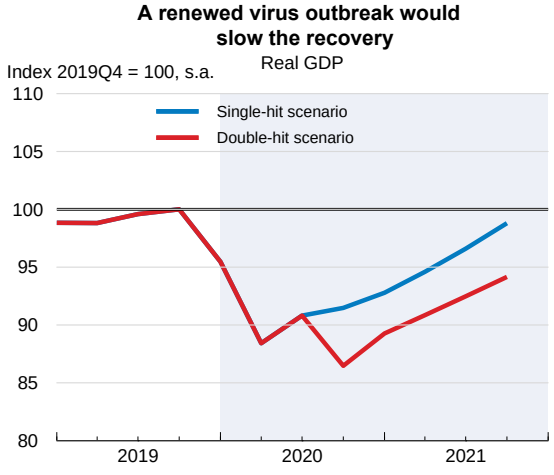
Containment measures to prevent the spread of the COVID-19 virus have led to a domestic shock as large parts of the service sector closed while a negative international demand shock curtailed production in the manufacturing sector that is strongly integrated in international supply chains. In case of the virus outbreak returning later in the year (the double-hit scenario), the second lockdown will have a lasting negative impact on businesses, leading to relatively large shares of underutilised resources at the end of the projection period. In the single-hit scenario, the initial deep shock is followed by a rebound of economic activity, leading to a sustained recovery that quickly reduces unemployment.

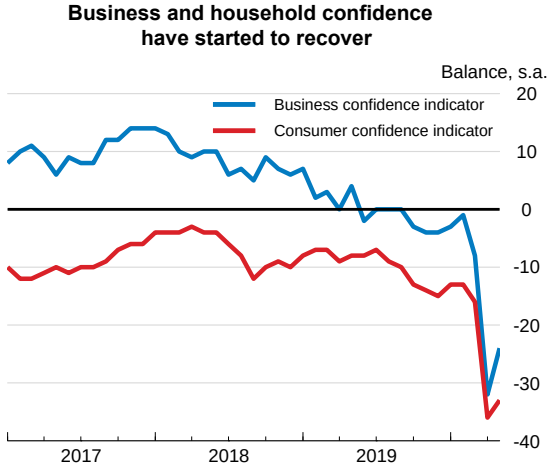
The containment strategy has limited negative health outcomes. To avoid higher long-term unemployment, active labour market policies should focus on support to the hard-to-employ job-seekers. A further increase in the relatively high number of state-owned enterprises should be countered by limiting strategic considerations and focussing on economically viable firms. If a second shock materialises, a more selective approach to economic relief and support should be applied to allow more businesses to remain open and this should be combined with protection of vulnerable groups.

The COVID-19 pandemic has been well contained in the first few months

The spread of the COVID-19 pandemic has been limited, with relatively few cases and fatalities compared with other countries. The first case was confirmed in early March and a lockdown was imposed in mid-March. The pandemic has been mostly concentrated in the capital and the eastern part of the country. Since early May, the number of cases and fatalities have stabilised. The efficiency of the health care system compares favourably with peers. Nonetheless, structural problems in the sector (including a prevalence of small general hospitals) raise concerns about inefficiencies in cost, quality and safety. The low and uneven density of general practitioners contributes to a high number of referrals to specialists and emergency units, where the ratio of intensive care beds to population is relatively low. This may raise capacity concerns if the pandemic comes back in a more virulent form.

Slovenia





Source: OECD Economic Outlook 107 database; and OECD Main Economic Indicators database.

StatLink https://doi.org/10.1787/888934139898

Slovenia: Demand, output and prices (double-hit scenario)

Slovenia: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices EUR billion	Percentage changes, volume (2010 prices)				
GDP at market prices	40.4	4.8	4.1	2.4	-9.1	1.5
Private consumption	21.8	2.0	2.8	2.7	-12.4	1.8
Government consumption	7.7	0.3	3.2	1.6	7.8	0.4
Gross fixed capital formation	7.0	10.4	9.1	3.2	-14.5	1.5
Final domestic demand	36.5	3.2	4.2	2.6	-8.7	1.4
Stockbuilding[1]	0.4	0.7	0.2	-0.4	-0.1	0.0
Total domestic demand	36.9	4.2	4.7	2.2	-7.9	1.4
Exports of goods and services	31.5	10.5	6.1	4.4	-16.0	-2.3
Imports of goods and services	28.0	10.1	6.6	4.2	-16.4	-3.0
Net exports[1]	3.5	1.2	0.2	0.5	-1.2	0.3
Memorandum items						
GDP deflator	_	1.6	2.2	2.4	0.7	1.8
Harmonised index of consumer prices	_	1.6	1.9	1.7	1.0	1.7
Harmonised index of core inflation[2]	_	0.7	1.0	1.9	1.4	1.7
Unemployment rate (% of labour force)	_	6.6	5.1	4.4	6.9	8.1
General government financial balance (% of GDP)	_	0.0	0.7	0.5	-8.8	-8.1
General government gross debt (% of GDP)	_	89.4	84.1	86.6	100.2	108.0
General government debt, Maastricht definition (% of GDP)	_	74.1	70.4	66.1	79.7	87.5
Current account balance (% of GDP)	_	6.3	6.1	6.6	6.1	6.1

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138663

To contain the virus outbreak, the government restricted movement of people within their municipality, introduced temperature screenings in airports and border controls with Italy, and closed all educational institutions and non-food retailing. Measures to cope with the health emergency included the deployment of an army field hospital, movement restrictions on health personnel, and the imposition of maximum prices for protective medical gear and other medical equipment. After mid-May, the gradual opening of the economy commenced.

Economic activity slowed abruptly

The pandemic has manifested itself in a historically large drop in consumer confidence and business sentiment, which only recently have begun to recover. The initial collapse reflected the sudden evaporation of domestic and international demand and led to a large contraction in economic activity. In the first month of containment, the volume of retail trade contracted by 15% (y-o-y). The tourism sector is the worst affected, where overnight stays have collapsed. Also hard hit is road transport with a 20% decline (y-o-y) in domestic freight transport on motorways and twice as much for international freight, although activity of the latter has started to recover. Manufacturing has been strongly affected, notably with the ceasing of production in the automotive sector. In April, day-time electricity consumption fell by a fifth compared with a year earlier. Overall, the OECD estimates the output loss in the first half of 2020 at 13% at an annualised rate. The rise in registered unemployment is still relatively modest, reflecting government measures to support jobs. Amid heightened uncertainty, the yield on government bonds has more than doubled, pushing the spread with German bonds to 120 basis points.

Slovenia: Demand, output and prices (single-hit scenario)

Slovenia: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices EUR billion	Percentage changes, volume (2010 prices)				
GDP at market prices	40.4	4.8	4.1	2.4	-7.8	4.5
Private consumption	21.8	2.0	2.8	2.7	-11.3	4.1
Government consumption	7.7	0.3	3.2	1.6	7.8	0.4
Gross fixed capital formation	7.0	10.4	9.1	3.2	-12.2	7.6
Final domestic demand	36.5	3.2	4.2	2.6	-7.5	3.9
Stockbuilding[1]	0.4	0.7	0.2	-0.4	-0.1	0.0
Total domestic demand	36.9	4.2	4.7	2.2	-6.7	3.9
Exports of goods and services	31.5	10.5	6.1	4.4	-14.4	0.7
Imports of goods and services	28.0	10.1	6.6	4.2	-14.9	-0.6
Net exports[1]	3.5	1.2	0.2	0.5	-1.0	0.9
Memorandum items						
GDP deflator	_	1.6	2.2	2.4	0.7	1.9
Harmonised index of consumer prices	_	1.6	1.9	1.7	1.0	2.0
Harmonised index of core inflation[2]	_	0.7	1.0	1.9	1.4	2.0
Unemployment rate (% of labour force)	_	6.6	5.1	4.4	6.4	5.4
General government financial balance (% of GDP)	_	0.0	0.7	0.5	-8.0	-5.7
General government gross debt (% of GDP)	_	89.4	84.1	86.6	99.0	103.5
General government debt, Maastricht definition (% of GDP)	_	74.1	70.4	66.1	78.4	82.9
Current account balance (% of GDP)	_	6.3	6.1	6.6	6.3	6.7

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138682

A substantial fiscal effort has been put in place

Crisis-related fiscal measures amount to nearly 4½ per cent of GDP. A key objective is to provide income support for employees working in companies that have partially or fully suspended their operations. In addition, the government pays for pension insurance contributions for firms that continue operations during the crisis. The unemployed are entitled to benefits from the first day of unemployment and the self-employed are guaranteed a monthly basic income equivalent to the net minimum wage. Firms are supported by a 24-month deferral of corporate income tax payments and accelerated payments for public procurements. Support for other groups include 80% wage compensation for parents that stay at home for child caring reasons and a crisis bonus for pensioners. Banks have to defer liabilities of crisis-affected solvent businesses by 12 months, and the government has issued guarantees of up to EUR 2.2 billion (4½ per cent of GDP) to banks. Effective from 1 June, the government is implementing measures to stimulate the economy, amounting to 1% of GDP, which includes the issuance of tourist vouchers to all Slovenians, the extension of support measures for the most affected sectors and co-financing of part-time work. The emphasis of fiscal support on maintaining incomes and supporting firms has so far limited increases in unemployment and bankruptcies.

The economy is expected to recover gradually

The double-hit scenario assumes a new shock at end-2020 of half the size of the initial shock. In this scenario, the initial rebound of the economy following the lifting of current restrictions will be followed by a second contraction, leading to a decline in economic activity of 9.1% in 2020. This leads to higher long-term unemployment and more bankruptcies, holding back the economy's growth potential and leading to a large share of underutilised resources at the end of the projection period. The single-hit scenario has containment measures in place for two months with a gradual lifting of restrictions. As restrictions are lifted, released pent-up demand is projected to lead to a sharp rise in economic growth, which, nonetheless, is projected to contract by 7.8% in 2020. This is most evident in private consumption of durable goods, but also for business investments. After this initial boost to demand, the economy is projected to enter a more stable growth path, reflecting that in some sectors, such as in tourism and automotive industry, demand will remain subdued for longer. Following the initial labour market shock, unemployment is expected to gradually recede towards pre-crisis levels.

The main risks to both scenarios are a larger-than-expected number of bankruptcies and the increase of new job seekers, which would both reduce the economy's ability to bounce back. Demand could also be held back by a further increase in bond yields. On the upside, growth would be stronger if foreign demand rebounds faster than projected, especially if international supply chains are restored rapidly.

Additional measures are needed to sustain long-term prospects

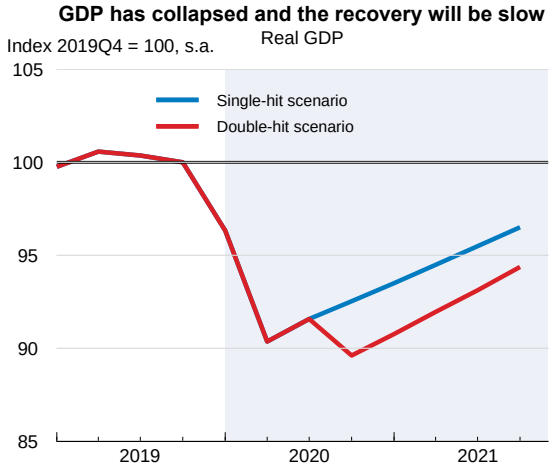
To avoid higher long-term unemployment, it is important that active labour market policies focus on the hard-to-employ job-seekers by providing adequate job search support and skills upgrading. Another concern is to avoid a further increase in the already relatively high share of state-owned enterprises, which are present across all sectors. This requires limiting the scope for strategic considerations and focussing on economically viable firms. To minimise the economic effects of a second wave of the pandemic, a more targeted approach could protect vulnerable groups, while limiting confinement measures to allow more businesses to remain open, drawing on experiences from the current outbreak.

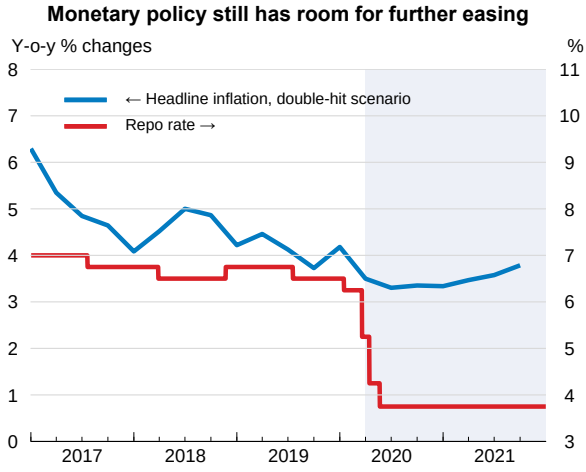
South Africa

The COVID-19 outbreak adds to South Africa's already severe economic challenges, with depressed growth, large fiscal deficits, increasing debt and high social vulnerabilities. Strict containment measures have cut production in key sectors and led to a slump in demand. In the double-hit scenario, a new virus outbreak affecting South Africa and its trading partner countries will curtail exports, deepening the reduction in GDP to 8.2% in 2020 and limiting the recovery in 2021, with GDP growth at 0.6%. Persistent electricity shortages, rising government debt and policy uncertainty will continue to hold back investment and production. In the single-hit scenario, economic activity will fall by 7½ per cent in 2020 before picking up progressively with GDP growth of 2½ per cent in 2021.

The government has put in place an extensive support programme for low-income earners and social grant beneficiaries as well as firms, in particular SMEs, affected by the crisis. Efforts to broaden support to informal workers should continue. Pressing structural issues, including restructuring state-owned enterprises, should be addressed in order to lift economic potential and enhance the fiscal room to continue to support the economy. Targeted sectoral measures of the government rescue plan should be prolonged. For instance, the Tourism Relief Fund should be increased and extended up to mid-2021, particularly if there is a renewed virus outbreak later in the year. Furthermore, with muted inflation throughout the projection period, room remains for further monetary policy easing.

South Africa





Source: OECD Economic Outlook 107 database; and SARB.

StatLink https://doi.org/10.1787/888934139917

South Africa: Demand, output and prices (double-hit scenario)

South Africa: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices ZAR billion	Percentage changes, volume (2010 prices)				
GDP at market prices	4 348.8	1.4	0.8	0.2	-8.2	0.6
Private consumption	2 584.4	2.1	1.8	1.0	-6.5	0.8
Government consumption	906.3	0.2	1.9	1.5	2.5	2.3
Gross fixed capital formation	846.6	1.0	-1.4	-0.9	-15.1	-1.0
Final domestic demand	4 337.3	1.5	1.2	0.8	-6.1	0.8
Stockbuilding[1]	- 11.3	0.4	-0.2	0.0	-1.1	0.0
Total domestic demand	4 325.9	1.9	1.0	0.7	-7.5	0.8
Exports of goods and services	1 333.0	-0.7	2.6	-2.5	-12.5	1.5
Imports of goods and services	1 310.2	1.0	3.3	-0.5	-10.0	2.0
Net exports[1]	22.8	-0.5	-0.2	-0.6	-0.5	-0.2
Memorandum items						
GDP deflator	_	5.6	3.3	4.2	2.7	3.3
Consumer price index	_	5.3	4.6	4.1	3.4	3.3
Core inflation index[2]	_	4.6	4.2	4.1	3.5	3.5
General government financial balance (% of GDP)	_	-3.8	-3.4	-6.5	-10.0	-8.2
Current account balance (% of GDP)	_	-2.5	-3.6	-3.0	-3.1	-3.0

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138701

Early measures helped to slow the spread of the pandemic

The first confirmed case of COVID-19 was registered on 5 March. Since then, the pandemic has spread, affecting most strongly the capital-province Gauteng and the Western Cape. South Africa has a dual health system with significant inefficiencies and inequality of access to high-quality healthcare. The private sector, accounting for a half of national spending, covers only 17% of the population. Most of the critical care beds and intensive care beds (around 3000) are in the private health-care sector. However, in response to the COVID-19 crisis, closer co-operation and pooling of available resources between the public and private sectors has been initiated. More than a third of the population is suffering from hypertension, around 4.5 million people have diabetes and over 70% of women and 40% of men are overweight or obese, three factors that accentuate morbidity risks with COVID-19.

As of 15 March, while there were only few confirmed cases, the government declared a national state of disaster, imposing a travel ban from highly infected countries, testing and, if needed, isolating individuals returning from infected countries. Within a week, a national lockdown was established, and kept in place for a total of 35 days. Schools and universities were closed, transport shut down and any form of gathering prohibited.

South Africa: Demand, output and prices (single-hit scenario)

South Africa: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices ZAR billion	Percentage changes, volume (2010 prices)				
GDP at market prices	4 348.8	1.4	0.8	0.2	-7.5	2.5
Private consumption	2 584.4	2.1	1.8	1.0	-5.8	2.3
Government consumption	906.3	0.2	1.9	1.5	2.4	1.6
Gross fixed capital formation	846.6	1.0	-1.4	-0.9	-13.9	2.4
Final domestic demand	4 337.3	1.5	1.2	0.8	-5.5	2.1
Stockbuilding[1]	- 11.3	0.4	-0.2	0.0	-1.1	0.0
Total domestic demand	4 325.9	1.9	1.0	0.7	-6.8	2.2
Exports of goods and services	1 333.0	-0.7	2.6	-2.5	-10.8	5.6
Imports of goods and services	1 310.2	1.0	3.3	-0.5	-8.6	4.5
Net exports[1]	22.8	-0.5	-0.2	-0.6	-0.5	0.2
Memorandum items						
GDP deflator	_	5.6	3.3	4.2	2.9	3.8
Consumer price index	_	5.3	4.6	4.1	3.5	3.7
Core inflation index[2]	_	4.6	4.2	4.1	3.5	3.9
General government financial balance (% of GDP)	_	-3.8	-3.4	-6.5	-9.0	-7.6
Current account balance (% of GDP)	_	-2.5	-3.6	-3.0	-3.0	-2.5

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138720

Economic activity has collapsed

Since early April, the large majority of businesses (85%) have reported turnover below the normal range and 46% have reported temporary closure or paused trading activity, according to a survey by the statistical office. Construction, transport, real estate and manufacturing are among the hardest hit sectors along with tourism. In the mining sector (8% of GDP) some firms have had to operate at reduced capacity. Across sectors, fewer than 20% of firms were able to continue to trade at full capacity, except for forestry and fishing (30%). These indicators corroborate estimates of around a 20% loss of GDP due to the lockdown. Over the last two weeks of April, the Unemployment Insurance Fund paid benefits to more than one million workers under the Temporary Employer/Employee Relief Scheme, which assists employers with continuing to pay salaries.

Swift monetary and fiscal policy responses are mitigating the impact of the crisis

In addition to reducing the repurchasing rate to 3.75% from 6.25%, the Reserve Bank has increased the provision of liquidity to the banking sector. The Prudential Authority dropped minimum capital requirements and compulsory reserve funds for lenders, reduced the liquidity coverage ratio to 80% from 100% and relaxed accounting standards for losses in the financial sector. On the fiscal side, the government put in place a rescue/stimulus plan amounting to 10% of GDP to support households and businesses. In particular, all social grants were augmented by R500 for 6 months and different sectoral or size-related schemes were established to provide loans, guarantees, subsidies, tax deferral and relief, and wage subsidies.

Structural bottlenecks will weigh on the recovery

After four weeks of lockdown, the authorities have started to ease containment measures progressively. This prolonged period of very low activity led to a collapse of production both in the service sector and in manufacturing and mining. In the double-hit scenario, this is then followed by a renewed fall in activity and exports in the fourth quarter of 2020. The government rescue plan will mitigate the fall in household consumption but investment, which has been declining over the past two years, will decline to a record low level. In the single-hit scenario, the depreciation of the Rand that has already taken place, driven by deteriorating fiscal accounts, will not boost exports as commodity demand remains weak, though prices of some commodities (gold, platinum) are high. High production costs will continue to weigh on economic activity. Load shedding (rolling blackouts) by power utilities remains a key domestic risk. On the other hand, a faster recovery in China would have growth spillovers for South Africa, including through higher demand and prices for commodity exports.

Pressing structural reforms are needed to respond to the crisis and foster more inclusive growth

Measures targeting vulnerable households should continue if needed after the initial six months, in particular if there is a further virus outbreak. Supporting informal workers will require better identification and targeting. In the sectors hardest hit (tourism, restaurants, etc.), support to firms should be prolonged until their activity recovers. Financing this rescue plan can be afforded by partnering with international financial institutions and borrowing in the domestic financial market while the Reserve Bank supports liquidity in the debt market. However, the paramount reform needed to unlock the potential of the economy and bring back confidence is to tackle the challenges of key state-owned enterprises, particularly Eskom, the monopolistic national electricity company. Such reforms are urgently needed to create conditions for the return of investment and growth and to restore fiscal sustainability.

Spain

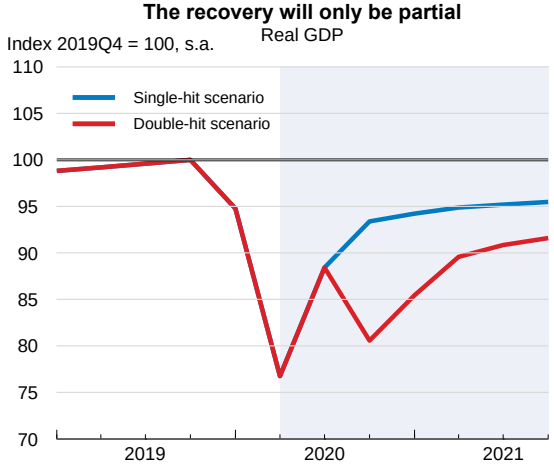
The economy is projected to contract by 14.4% in 2020 in a scenario with a second virus outbreak later in the year, and by 11.1% in a scenario assuming that the pandemic subsides by the summer. The subsequent recovery in 2021 will be slower in the former case, at 5%, compared to the rebound of 7.5% in the single-hit scenario, given more persistent effects on labour markets and the financial situation of firms and households. In both scenarios, the fall in domestic demand, due to job destruction and the shutdown of activity, is the key driver of the contraction. The drop in external demand, especially in tourism services, will also weigh very strongly on the economy in 2020.

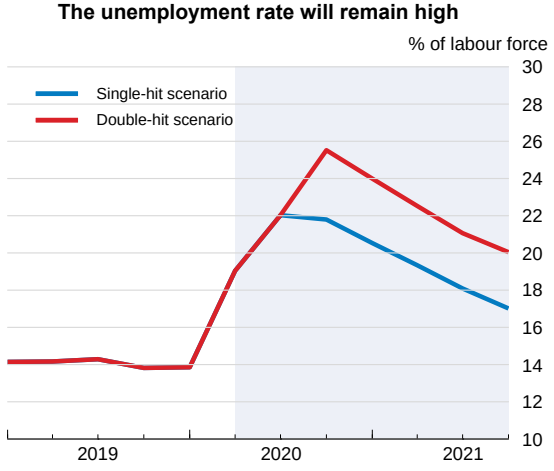
The government has taken significant measures to support employment and provide liquidity to the economy. The expansion of hospital and testing capacities and the rapid identification of infected people will be crucial to prevent further outbreaks. As the recovery commences, the use of short-time work schemes will need to become well-targeted and gradually replaced with labour market policies to help firms and workers in sectors with persistent negative effects shift into activities with better medium-term prospects. Liquidity support should also be targeted to solvent firms with cash-flow problems, especially in sectors where the end of the shutdown is delayed.

Spain has been hit hard by COVID-19

The first diagnosed case was reported on 1 February, followed by a rapid increase in the second half of March. The number of new daily cases and deaths peaked in early April, with Catalonia and Madrid the most affected regions. The capacity of the health system was lower than the OECD average going into the crisis, with fewer intensive care beds, but their number had more than doubled at the peak of the crisis.

Spain





Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934139936

Spain: Demand, output and prices (double-hit scenario)

Spain: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	1 113.8	2.9	2.4	2.0	-14.4	5.0
Private consumption	648.3	3.0	1.8	1.1	-17.3	7.1
Government consumption	212.3	1.0	1.9	2.3	3.2	1.2
Gross fixed capital formation	200.0	5.9	5.3	1.8	-24.7	6.2
Final domestic demand	1 060.6	3.1	2.5	1.5	-14.9	5.5
Stockbuilding[1]	8.8	0.0	0.2	0.1	0.1	0.0
Total domestic demand	1 069.4	3.1	2.7	1.5	-14.6	5.5
Exports of goods and services	377.4	5.6	2.2	2.6	-19.8	5.7
Imports of goods and services	333.0	6.6	3.3	1.2	-21.1	7.5
Net exports[1]	44.4	-0.1	-0.3	0.5	-0.1	-0.3
Memorandum items						
GDP deflator	_	1.4	1.1	1.6	0.7	0.0
Harmonised index of consumer prices	_	2.0	1.7	0.8	-0.2	-0.2
Harmonised index of core inflation[2]	_	1.2	1.0	1.1	0.3	0.0
Unemployment rate (% of labour force)	_	17.2	15.3	14.1	20.1	21.9
General government financial balance (% of GDP)	_	-3.0	-2.5	-2.8	-12.5	-9.6
General government gross debt (% of GDP)	_	115.8	114.7	117.1	151.2	150.4
General government debt, Maastricht definition (% of GDP)	_	98.6	97.6	95.5	129.5	128.8
Current account balance (% of GDP)	_	2.7	1.9	2.0	2.3	2.0

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138739

Some of the containment measures, which include the closure of schools and universities, mobility restrictions and the suspension of most retail and industry activity and a nationwide lockdown as from 14 March, have been gradually lifted since 10 May. EUR 4.6 billion was allocated to meet increased healthcare and research needs, and the VAT rate on purchases of medical healthcare material was reduced to zero.

Confinement measures restricted economic activity

Real GDP fell by 5.2% in the first quarter of 2020, driven by a collapse in domestic demand. Economic activity is expected to have decreased by around 30% during the lockdown, relative to a normal period, given the high share of accommodation and food services and wholesale and retail trade in the economy. Consumer confidence and new private car registrations declined in March and April. The number of international tourists fell by 64% in March, compared to a year earlier, and was zero in April due to border closures. Retail trade recorded its largest drop in history in March. There are some early indicators of economic rebound now that confinement measures have been eased. Overall, the number of social security contributors declined by 760 082 between 12 March and the end of May, but rose in May compared to April. Following sharp declines to historically low levels in April, the manufacturing and services PMIs recovered slightly in May, but remained at a low level.

Spain: Demand, output and prices (single-hit scenario)

Spain: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	1 113.8	2.9	2.4	2.0	-11.1	7.5
Private consumption	648.3	3.0	1.8	1.1	-13.4	9.7
Government consumption	212.3	1.0	1.9	2.3	3.2	1.2
Gross fixed capital formation	200.0	5.9	5.3	1.8	-20.1	10.3
Final domestic demand	1 060.6	3.1	2.5	1.5	-11.6	7.9
Stockbuilding[1]	8.8	0.0	0.2	0.1	0.1	0.0
Total domestic demand	1 069.4	3.1	2.7	1.5	-11.4	7.8
Exports of goods and services	377.4	5.6	2.2	2.6	-16.7	9.5
Imports of goods and services	333.0	6.6	3.3	1.2	-18.0	10.7
Net exports[1]	44.4	-0.1	-0.3	0.5	-0.1	-0.1
Memorandum items						
GDP deflator	_	1.4	1.1	1.6	0.8	0.3
Harmonised index of consumer prices	_	2.0	1.7	0.8	0.0	0.3
Harmonised index of core inflation[2]	_	1.2	1.0	1.1	0.4	0.3
Unemployment rate (% of labour force)	_	17.2	15.3	14.1	19.2	18.7
General government financial balance (% of GDP)	_	-3.0	-2.5	-2.8	-10.3	-6.2
General government gross debt (% of GDP)	_	115.8	114.7	117.1	139.5	137.4
General government debt, Maastricht definition (% of GDP)	_	98.6	97.6	95.5	117.8	115.8
Current account balance (% of GDP)	_	2.7	1.9	2.0	2.3	2.0

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138758

The policy response has been extensive

The main government income support measures include short-time work arrangements, increased sick pay for infected or quarantined workers, benefits for cessation of activity by the self-employed, extension of the coverage of unemployment benefits, increased regulation of dismissals due to COVID-19, and support to meet payment obligations, such as rent and other loans. A guaranteed minimum income scheme was recently approved by the government. Several exemptions, deferrals and moratoria on social security contributions and taxes were introduced, together with public guarantees on loans to private firms, especially SMEs (EUR 104.4 billion), to provide liquidity to viable firms and the self-employed. Policies taken at the European level, notably large-scale financial asset purchases by the European Central Bank, will also support low financing costs and lending.

The historical drop in activity will be followed by a gradual recovery

The two main scenarios are of a single pandemic outbreak, which assumes the gradual opening up of economic activity after the end of the lockdown, and that of a second outbreak in the final quarter of 2020. Both scenarios imply a sharp fall in export market growth and disruptions to global value chains in 2020. The recovery will be driven by the realisation of postponed consumption and investment. However, heightened uncertainty and the high share of tourism in GDP will mute the speed of recovery. In the scenario with the additional outbreak, the negative effects on activity will be more severe and persistent, due to a higher number of insolvencies and longer unemployment spells, despite assumed additional policy

support. The budget deficit and the public debt-to-GDP ratio are projected to rise sharply, with the latter (Maastricht definition) reaching 117.8% in the single-hit and 129.5% in the double-hit scenario in 2020.

A slower-than-assumed recovery in tourism and trading partner growth could limit exports further. Greater uncertainty and more persistent effects on household and firm solvency could restrict the recovery in domestic demand more than projected. The latter could also magnify the spillover effects in the financial sector, *via* a significant rise in non-performing loans.

Further well-targeted policies would contribute to an effective recovery

Some of the current measures will need to be continued and refined to lower the risk that the transitory shock turns into a more permanent effect on activity. As the recovery commences, the gradual scaling back of short-time work schemes and stronger active labour market policies, particularly retraining schemes, will help ensure an efficient reallocation of labour from sectors facing extended weak demand. Further policies may be warranted to relaunch the tourism sector, which will require co-operation with the private sector and across different levels of governments. Additional liquidity aid and public guarantees, focused on solvent businesses with cash-flow problems, might be needed to lower the rate of insolvencies, which can otherwise create an adverse feedback loop between the real and financial economy. These should be accompanied by close financial supervision of individual financial institutions, given the considerable heterogeneity in their sectoral and geographical exposures. Temporarily boosting public investment, with a specific focus on green investment, would help kick-start the recovery and reduce air pollution, which is above European averages, in major cities.

Sweden

The COVID-19 pandemic has triggered a severe recession. GDP is expected to fall by 7.8% in 2020 assuming another virus outbreak later in the year and by 6.7% if the virus outbreak subsides by summer. While containment measures have been less stringent than in most other OECD countries, private consumption has fallen markedly and is set to recover only slowly. Both disruptions to supply chains and tumbling demand have led to stoppages in industry. Export weakness is expected to linger, and the investment slump even more so, as high uncertainty compounds the effect of weak demand.

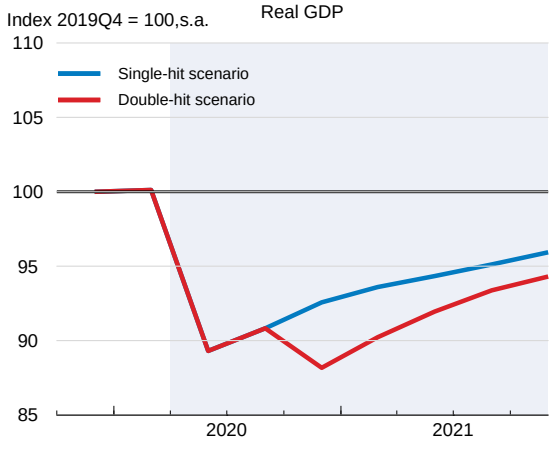
The government has implemented a wide range of measures to support local authorities and households and to protect jobs and companies. The short-term work scheme is containing the rise in unemployment, which is nevertheless rapid. Tax deferrals, reduced social security contributions and credit guarantees give breathing space to companies. The monetary and financial authorities provide ample liquidity and support for lending, along with eased macro-prudential rules. Further investments in green projects and human capital will be required to shore up employment and ensure a sustainable recovery. Healthy public finances provide fiscal space to further buttress the economy, if needed.

Soft containment measures have been implemented

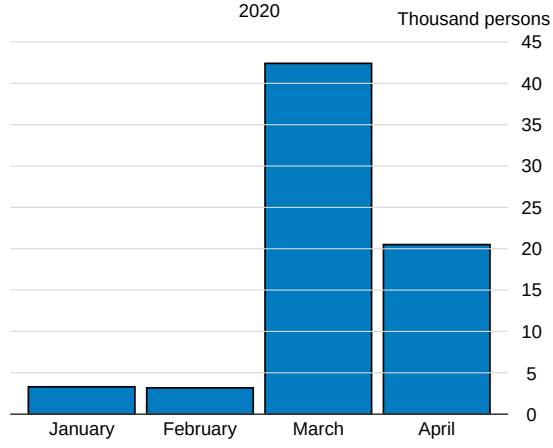
Sweden's first COVID-19 virus case was confirmed on 31 January and the number of people contaminated increased swiftly from March. Emergency measures to scale up acute care capacity allowed hospitals to cope with the rising inflow of patients. Nevertheless, the daily death toll rose rapidly until mid-April, before starting to decline steadily. The number of new infections stabilised, but remains relatively high, although this may partly reflect increased testing. The number of deaths is highest in the Stockholm region and among the elderly, especially in nursing homes.

Sweden

GDP is collapsing and the recovery will be sluggish



Job termination notices have soared



Source: OECD Economic Outlook 107 database; and Arbetsförmedlingen.

StatLink https://doi.org/10.1787/StatLink https://doi.org/10.1787/888934139955

Sweden: Demand, output and prices (double-hit scenario)

Sweden: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices SEK trillion	Percentage changes, volume (2019 prices)				
GDP at market prices	4 406.2	2.8	2.1	1.2	-7.8	0.4
Private consumption	2 023.7	2.6	1.9	1.2	-6.6	0.5
Government consumption	1 161.9	0.6	1.1	0.3	2.3	0.7
Gross fixed capital formation	1 064.8	5.9	1.4	-1.2	-10.9	-3.4
Final domestic demand	4 250.4	2.9	1.5	0.4	-5.2	-0.4
Stockbuilding[1]	22.0	0.1	0.3	-0.1	-1.1	-0.1
Total domestic demand	4 272.4	3.0	1.8	0.2	-6.3	-0.5
Exports of goods and services	1 876.2	4.5	4.4	3.3	-10.7	3.0
Imports of goods and services	1 742.4	5.1	4.0	1.2	-7.6	1.1
Net exports[1]	133.8	-0.1	0.3	1.0	-1.7	0.9
Memorandum items						
GDP deflator	_	2.1	2.4	2.8	1.9	1.6
Consumer price index[2]	_	1.8	2.0	1.8	0.2	0.8
Core inflation index[3]	_	2.0	2.1	1.7	0.0	0.6
Unemployment rate[4] (% of labour force)	_	6.7	6.3	6.8	10.6	11.1
General government financial balance (% of GDP)	_	1.4	0.8	0.5	-8.8	-8.5
General government debt, Maastricht definition (% of GDP)	_	40.7	38.8	35.1	42.3	51.9
Current account balance (% of GDP)	_	3.1	1.8	3.9	2.3	3.0

1. Contributions to changes in real GDP, actual amount in the first column.
2. The consumer price index includes mortgage interest costs.
3. Consumer price index with fixed interest rates.
4. Historical data and projections are based on the definition of unemployment which covers 15 to 74 year olds and classifies job-seeking full-time students as unemployed.

Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138777

The government introduced relatively soft measures in the second half of March to contain the spread of the disease, including a ban on events gathering more than 50 people, restrictions on visits to elderly care homes and the closure of higher secondary schools and universities. However, schools for younger children, as well as shops and restaurants could remain open. Social distancing is generally recommended, as well as to work from home if possible. People over the age of 70 are advised to avoid physical contact with others. Non-essential travel to Sweden was restricted according to the rules adopted by the European Commission on 17 March.

Economic activity is collapsing

The pandemic affects most economic activities, albeit with large differences. Worst hit are transport, tourism, accommodation, restaurants and cultural activities, where businesses are shut down or running at a fraction of pre-crisis activity. Bankruptcies are soaring, especially for hotels and restaurants. Sales of necessities, notably food, have remained solid, but those of other goods have collapsed, including online sales. Export orders tumbled in April. Weak global demand, together with value chain disruptions and health safety issues, have entailed plant closures, especially in the automotive industry. The number of short-term layoffs and job termination notices has risen sharply.

Sweden: Demand, output and prices (single-hit scenario)

Sweden: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices SEK trillion	Percentage changes, volume (2019 prices)				
GDP at market prices	4 406.2	2.8	2.1	1.2	-6.7	1.7
Private consumption	2 023.7	2.6	1.9	1.2	-5.0	3.9
Government consumption	1 161.9	0.6	1.1	0.3	2.3	0.5
Gross fixed capital formation	1 064.8	5.9	1.4	-1.2	-10.5	-2.8
Final domestic demand	4 250.4	2.9	1.5	0.4	-4.4	1.3
Stockbuilding[1]	22.0	0.1	0.3	-0.1	-1.1	-0.1
Total domestic demand	4 272.4	3.0	1.8	0.2	-5.5	1.2
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Net exports[1]	133.8	-0.1	0.3	1.0	-1.4	0.5
Memorandum items						
GDP deflator	_	2.1	2.4	2.8	1.9	1.6
Consumer price index[2]	_	1.8	2.0	1.8	0.3	1.1
Core inflation index[3]	_	2.0	2.1	1.7	0.0	0.8
Unemployment rate[4] (% of labour force)	_	6.7	6.3	6.8	10.0	10.0
General government financial balance (% of GDP)	_	1.4	0.8	0.5	-8.0	-7.0
General government debt, Maastricht definition (% of GDP)	_	40.7	38.8	35.1	41.2	49.2
Current account balance (% of GDP)	_	3.1	1.8	3.9	2.5	2.8

1. Contributions to changes in real GDP, actual amount in the first column.
2. The consumer price index includes mortgage interest costs.
3. Consumer price index with fixed interest rates.
4. Historical data and projections are based on the definition of unemployment which covers 15 to 74 year olds and classifies job-seeking full-time students as unemployed.

Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138796

Government support to the economy is massive

The government has introduced a wide range of measures to shore up the economy. Discretionary fiscal easing amounts to 4.8% of GDP. Adding liquidity measures, notably tax deferrals and state guarantees, total policy support could reach 16% of GDP. These policies are limiting the damage inflicted by the crisis on jobs and companies, protecting the most vulnerable and preserving economic and human capital to speed up the recovery once the crisis is over. The more generous short-term work scheme put in place is most important for the well-being of workers and for preserving skills for the recovery. For those who nevertheless lose their jobs, the unemployment insurance has temporarily been reinforced and education opportunities have been expanded. In addition, temporary reductions in employer social contributions, the temporary shouldering of the cost for sick pay by the government and a reorientation of support to cover part of the fixed costs of companies experiencing large losses in turnover give breathing space to businesses and targeted measures support some of the worse hit sectors. The government also increased grants to municipalities and regions, including for green jobs, which is essential to cover increased welfare costs and compensate for lower tax income. The Riksbank announced a programme of corporate lending via banks (up to about 10% of GDP), new asset purchases (up to around 6% of GDP) and other steps to increase liquidity. The financial supervisory authority lowered the counter-cyclical capital buffer to zero and suspended the mortgage amortisation requirement.

The recovery will be slow and a pandemic resurgence would delay it further

Economic activity is expected to pick up starting by the start of the summer, but slowly, as households exercise caution and purchasing power suffers from lower income, due to the fall in activity and high unemployment, and lower wealth, due to lower equity and housing prices. While government support partly shields households from the crisis, it will be slow to translate into higher spending, even though targeting lower-income households will help. Reorganising industrial production also takes time and the weakness of global demand and high uncertainty will hold back investment. Lacking demand is bound to exceed the reduction in supply capacity, pulling inflation down. Reflecting the sluggish recovery, unemployment will ebb very slowly. The double-hit scenario entails both another short-term blow to the economy and more severe long-term consequences, as bankruptcies increase further, longer unemployment spells erode human capital and heightened uncertainty delays investments even more.

Additional policy action may be needed to support the economy

The government has taken appropriate temporary measures to buttress the economy and alleviate hardship. Depending on the speed of the recovery, such measures may need to be prolonged. Part of the tax deferrals may need to be converted into tax cuts. Even though some steps to reinforce active labour market policies have already been taken, additional training and support for job search may be necessary. Further fiscal and monetary stimulus may be required to boost demand in the recovery phase. Low government debt provides fiscal space, despite the already huge increase in public spending. Further support could be targeted at sectors durably affected by the crisis or transitioning towards greener production.

Switzerland

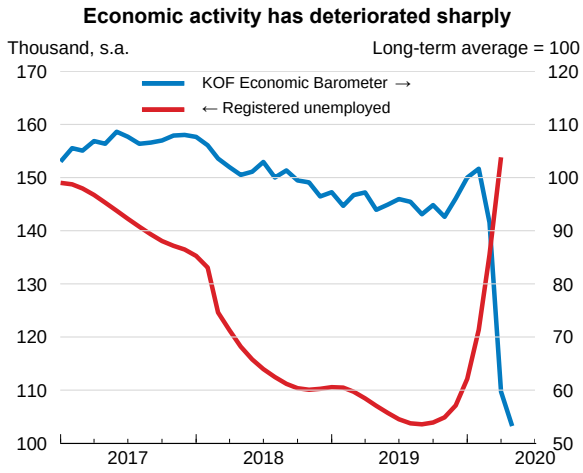
The COVID-19 pandemic has triggered a large decline in output. Despite a shorter shutdown than in many countries, private consumption and investment have slumped. GDP is expected to fall by 10% in 2020 if there is another virus outbreak later in the year and by 7.7% if the pandemic outbreak subsides by the summer. In the double-hit scenario, domestic demand will rebound only slowly due to low confidence. Private consumption will also be affected by higher unemployment. In the single-hit scenario, domestic demand should rebound more rapidly. In both scenarios, exports will recover only slowly, as foreign demand will remain weak, while unemployment will increase as the use of short-time work schemes declines.

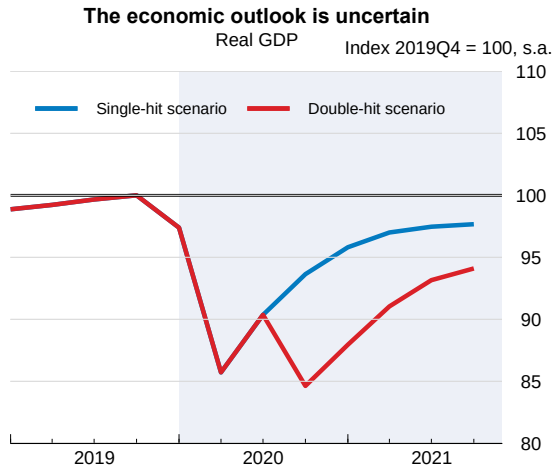
Monetary policy has remained accommodative, with negative interest rates. Low public debt leaves fiscal space to further support firms, especially SMEs, if the recovery is slower than expected. Training will be necessary for the low-skilled unemployed. The development of digital tools is needed to enhance e-services and especially e-medicine, as well as raise productivity. More support will be needed to expand the use of digital technology and encourage continuing education and training for groups who are most at risk from the effects of digitalisation.

Extensive containment measures have been implemented

The first case of COVID-19 was recorded on 25 February and the virus spread quickly thereafter. While cases spread to all cantons, Geneva, Ticino, Vaud, Basel-City and Valais have been the most affected. The authorities have managed to contain the growing pressure on the health system. To identify supply bottlenecks early and remedy them in a targeted manner, the federal government coordinated a response with cantons, including by introducing an obligation to report inventories of essential medicines and medical goods such as ventilators, diagnostic tests, surgical masks and protective suits.

Switzerland





Source: OECD Economic Outlook 107 database; State Secretariat for Economic Affairs; and KOF institute.

StatLink https://doi.org/10.1787/888934139974

Switzerland: Demand, output and prices (double-hit scenario)

Switzerland: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices CHF billion	Percentage changes, volume (2010 prices)				
GDP at market prices	661.6	1.9	2.7	1.0	-10.0	2.3
Private consumption	353.2	1.3	1.0	1.3	-8.9	3.0
Government consumption	79.4	1.2	0.3	1.3	1.7	0.5
Gross fixed capital formation	158.2	3.5	1.1	1.0	-9.8	-0.2
Final domestic demand	590.7	1.8	0.9	1.2	-7.8	1.8
Stockbuilding[1]	- 5.7	-0.1	-0.1	-1.1	-0.9	0.0
Total domestic demand	585.0	1.7	0.8	-0.1	-9.0	1.9
Exports of goods and services	435.0	0.0	2.9	0.6	-9.7	1.9
Imports of goods and services	358.4	-0.5	-0.3	-1.2	-8.1	0.9
Net exports[1]	76.6	0.3	2.0	1.0	-2.1	0.8
Memorandum items						
GDP deflator	_	-0.6	0.3	0.4	0.3	0.9
Consumer price index	_	0.5	0.9	0.4	-0.2	0.5
Core inflation index[2]	_	0.3	0.5	0.4	0.1	0.5
Unemployment rate (% of labour force)	_	4.8	4.7	4.4	5.7	6.6
General government financial balance (% of GDP)	_	1.2	1.4	1.2	-7.1	-4.3
General government gross debt (% of GDP)	_	42.9	41.1	40.0	46.1	50.5
Current account balance (% of GDP)	_	6.4	8.2	12.2	5.5	5.2

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.

Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138815

Due to the spread of the COVID-19 virus, the situation was categorised as "extraordinary", according to the Law on Epidemics, enabling the federal government to take over certain responsibilities from the 26 cantons and imposing containment measures. From mid-March, all schools were closed and all citizens were encouraged to stay home, especially the sick and the elderly. The government declared a ban on all private and public events and closed bars, restaurants, sports and cultural spaces. Border controls with neighbouring countries were reintroduced. Only Swiss citizens, people with a residence permit in Switzerland and those who travel to Switzerland for professional reasons – cross-border workers – were allowed to enter the country. Some restrictions have been eased after April 26 and some schools reopened after 10 May.

The economy has been hit severely

Many economic sectors have been severely impacted by the shutdown, especially tourism, hotels and restaurants, retail sales and cultural activities. By contrast, the pharmaceutical industry, which represents 30% of manufacturing value-added, has been resilient. In spite of the implementation of short-time work schemes, the number of unemployed persons increased significantly. The KOF economic barometer reached its lowest level since early 2009. Consumer confidence has plummeted, which will slow the rebound of private consumption and investment. The Swiss effective exchange rate continued to appreciate during the shutdown.

Switzerland: Demand, output and prices (single-hit scenario)

Switzerland: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices CHF billion	Percentage changes, volume (2010 prices)				
GDP at market prices	661.6	1.9	2.7	1.0	-7.7	5.7
Private consumption	353.2	1.3	1.0	1.3	-6.8	6.5
Government consumption	79.4	1.2	0.3	1.3	1.8	0.9
Gross fixed capital formation	158.2	3.5	1.1	1.0	-7.7	4.4
Final domestic demand	590.7	1.8	0.9	1.2	-5.9	5.2
Stockbuilding[1]	- 5.7	-0.1	-0.1	-1.1	-1.0	0.0
Total domestic demand	585.0	1.7	0.8	-0.1	-7.1	5.3
Exports of goods and services	435.0	0.0	2.9	0.6	-7.6	4.2
Imports of goods and services	358.4	-0.5	-0.3	-1.2	-6.7	2.9
Net exports[1]	76.6	0.3	2.0	1.0	-1.5	1.2
Memorandum items						
GDP deflator	_	-0.6	0.3	0.4	0.3	0.9
Consumer price index	_	0.5	0.9	0.4	-0.2	0.5
Core inflation index[2]	_	0.3	0.5	0.4	0.1	0.5
Unemployment rate (% of labour force)	_	4.8	4.7	4.4	5.7	6.4
General government financial balance (% of GDP)	_	1.2	1.4	1.2	-6.1	-1.1
General government gross debt (% of GDP)	_	42.9	41.1	40.0	45.3	46.7
Current account balance (% of GDP)	_	6.4	8.2	12.2	6.5	6.1

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.

Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138834

Measures to support the economy are extensive

A large package of CHF 72 billion (10.2% of GDP) has been introduced to help companies survive during the downturn and support employment. Part of the help includes government guarantees for loans (up to 100%) of companies in difficulty. Companies can extend payment deadlines of VAT, customs duties and special excise taxes without any interest. Companies and the self-employed may be granted a temporary interest-free delay for payment of social insurance contributions. Furthermore, the Corona Income-Compensation Scheme has been implemented to compensate the loss of income for employees and self-employed workers who are unable to work. To cushion employment impacts, Switzerland's existing short-time scheme (part-time unemployment benefit) has been expanded, administrative procedures have been eased and companies' co-payments have been temporarily suspended. The duration of unemployment compensation was extended during the crisis. Also, the Swiss National Bank (SNB) has introduced a COVID-19 refinancing facility to support banks' ability to provide loans granted under the government's COVID-19 scheme. Moreover, the SNB announced it would provide liquidity as part of the extended swap arrangements with other central banks.

The recovery will be slow

In the event of another virus outbreak later in the year, the economic impact will be more severe, with more bankruptcies, a stronger increase in unemployment and lower investment. GDP will rebound in 2021, rising by 2.3%, driven by consumption. In the single-hit scenario the rebound will be quicker, with GDP growth of 5.7% in 2021 while short-time work schemes cushion the impact on unemployment. In both scenarios,

the weak recovery in main trading partners and a strong currency will hold back exports. Risks are on the downside. Further appreciation of the currency would damp the expected trade recovery further. Prolonged uncertainty will cause business investment to recover only slowly. An increase in corporate and household debts, together with very low interest rates would increase the risks in the financial sector. On the other hand, a stronger return to growth in Europe would be positive for exports. Moreover, the economy could benefit from a good performance of the pharmaceutical sector.

More temporary fiscal support may be needed

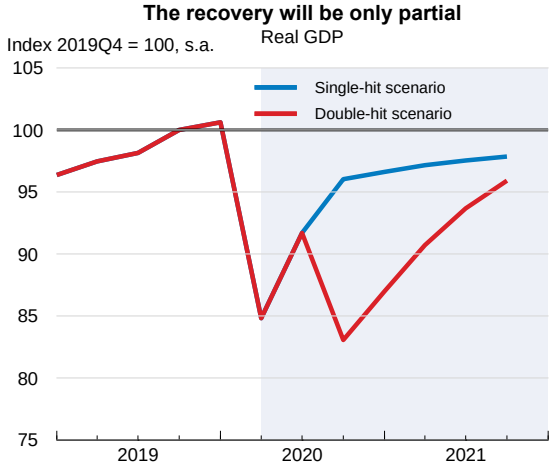
Not much room exists for a further easing of monetary policy that has been very accommodative for several years. Despite significant government spending to address the crisis, low public debt leaves room for further fiscal policy easing to continue to support firms, such as small and medium-sized firms and start-ups in particular, if the recovery is slower than expected. More financial resources and training may also be needed to address increases in unemployment. The government should be prepared to implement additional measures to relaunch the economy and boost confidence about future prospects. The recovery would be helped by the take-up of digital technologies especially in small and medium-sized firms. This will require expanding training for jobseekers and using subsidies to encourage continuing education and training for groups who are most at risk from the effects of digitalisation.

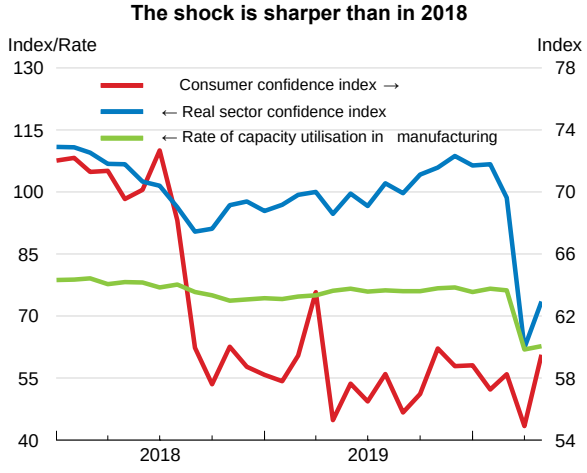
Turkey

After positive growth in the beginning of the year, Turkey's output is projected to contract by nearly 5% to 8% in 2020, depending on whether a new virus outbreak later this year is avoided (the single-hit scenario) or not (the double-hit scenario), due to employment losses, sharp income shortfalls and a fall in external demand. As a result of the relatively modest social safety net and firms' debt burdens, the recovery after the waiving of the containment measures is expected to be gradual. In the double-hit scenario, renewed lockdown measures would lead to a sharper investment and output decline in 2020 and a more gradual recovery in 2021.

A wide range of fiscal, quasi-fiscal and monetary measures have been implemented simultaneously to alleviate liquidity pressures. More inclusive aid should be offered to households in need, including to wage earners and the self-employed in the informal sector. Long-term and solvency-enhancing financial support, preferably through non-debt creating instruments, to over-leveraged and sound firms of all sizes would improve their post-shock growth potential. Strengthening the transparency and credibility of fiscal, monetary and financial policies would help to address the weak macroeconomic fundamentals and contribute to reducing Turkey's vulnerability to external shocks.

Turkey





Source: OECD Economic Outlook 107 database; Central Bank of the Republic of Turkey; and Turkish Statistical Institute.

StatLink https://doi.org/10.1787/888934139993

Turkey: Demand, output and prices (double-hit scenario)

Turkey: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices TRY billion	Percentage changes, volume (2009 prices)				
GDP at market prices	2 608.5	7.5	2.8	0.9	-8.1	2.0
Private consumption	1 560.5	6.3	0.1	0.8	-6.1	4.6
Government consumption	387.0	4.7	6.9	4.5	15.8	4.0
Gross fixed capital formation	764.7	8.2	-0.6	-12.4	-20.9	-5.2
Final domestic demand	2 712.2	6.6	0.8	-2.6	-6.7	2.0
Stockbuilding[1]	- 28.4	0.7	-2.4	0.8	-1.1	0.0
Total domestic demand	2 683.8	7.4	-1.7	-2.0	-8.2	2.0
Exports of goods and services	573.0	12.0	7.8	6.4	-11.2	4.8
Imports of goods and services	648.2	10.4	-7.8	-3.6	-12.2	5.5
Net exports[1]	- 75.3	0.0	4.2	3.0	0.1	-0.1
Memorandum items						
GDP deflator	_	11.0	16.4	13.9	13.8	8.4
Potential GDP, volume	_	5.5	5.2	4.5	3.8	3.0
Consumer price index[2]	_	11.1	16.3	15.2	10.3	8.6
Core inflation index[3]	_	10.1	16.5	13.4	10.5	8.9
Unemployment rate (% of labour force)	_	10.9	11.0	13.7	16.8	16.1
Current account balance (% of GDP)	_	-4.8	-2.1	1.1	0.6	-0.4

1. Contributions to changes in real GDP, actual amount in the first column.
2. Based on yearly averages.
3. Consumer price index excluding food and energy.

Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138853

The pandemic spread fast but targeted lockdowns and complementary measures were effective

The pandemic started in Turkey in the second half of March and diffused at a fast pace. According to available information, contagion cases peaked at the end of April. Turkey's health system has a relatively low average number of physicians and hospital beds per capita, but is well-prepared to public health emergencies, thanks, notably, to a strong intensive care infrastructure. The authorities put in place targeted lockdowns and curfews dedicated to special age groups, towns and neighbourhoods. Sectors closed by administrative decision were narrow in international comparison, and not more than 40% of the population was formally locked down, except during national curfews over weekends and public holidays. International and domestic passenger traffic was shut down. Quarantines across regions and intense testing and tracing activities were implemented. Wearing masks in all public places was made obligatory.

Turkey: Demand, output and prices (single-hit scenario)

Turkey: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices TRY billion	Percentage changes, volume (2009 prices)				
GDP at market prices	2 608.5	7.5	2.8	0.9	-4.8	4.3
Private consumption	1 560.5	6.3	0.1	0.8	-3.2	4.9
Government consumption	387.0	4.7	6.9	4.5	15.8	1.8
Gross fixed capital formation	764.7	8.2	-0.6	-12.4	-14.5	10.0
Final domestic demand	2 712.2	6.6	0.8	-2.6	-3.3	5.5
Stockbuilding[1]	- 28.4	0.7	-2.4	0.8	-1.5	0.0
Total domestic demand	2 683.8	7.4	-1.7	-2.0	-5.0	5.3
Exports of goods and services	573.0	12.0	7.8	6.4	-8.0	10.4
Imports of goods and services	648.2	10.4	-7.8	-3.6	-9.4	15.4
Net exports[1]	- 75.3	0.0	4.2	3.0	0.3	-1.1
Memorandum items						
GDP deflator	_	11.0	16.4	13.9	14.1	8.5
Potential GDP, volume	_	5.5	5.2	4.5	3.8	3.5
Consumer price index[2]	_	11.1	16.3	15.2	10.6	9.1
Core inflation index[3]	_	10.1	16.5	13.4	10.8	9.0
Unemployment rate (% of labour force)	_	10.9	11.0	13.7	15.6	14.2
Current account balance (% of GDP)	_	-4.8	-2.1	1.1	0.9	-1.3

1. Contributions to changes in real GDP, actual amount in the first column.
2. Based on yearly averages.
3. Consumer price index excluding food and energy.

Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138872

The demand contraction has been very large

Despite comparatively limited restrictions, the employment and demand contraction has been large. Available high-frequency indicators hint at a sharp decline in private consumption and investment from April – at a rate of 20% or more. The weakening of external demand and of domestic business and household sentiment has amplified the downturn. Tourism was hit particularly hard. The hospitality sector employs 8% of all workers, generates massive demand for other products and services, and secures one fifth of total export revenues. Local and regional demand fell twice as rapidly in touristic regions as in others. Customer visits to formally open shopping centres collapsed (they subsequently closed). Social safety nets, including formal unemployment insurance and short-term work schemes and unpaid leave subsidies introduced during the crisis are modest in size, and available only to wage earners in the formal sector (less than 60% of the labour force). Income losses of informal workers and the self-employed who draw their daily revenues from activities like public transportation, retail trade and catering added to weak demand.

A wide-range of support measures draw on quasi-fiscal channels

The government has put in place a wide range of support measures. Emergency aid of TRY 1 000 (around USD 150) per family was offered to 5.3 million households, addressing situations of extreme distress, but supporting their living standards and aggregate demand only to a limited extent. Support to businesses is being provided mainly via tax and loan deferrals and additional credits, principally by public but also private banks, incentivised by expanded government loan guarantees and newly-introduced lending and

prudential regulations. The support avoided a surge in business bankruptcies but did not address mounting insolvency pressures. Public banks also offer subsidised credit lines to the self-employed and households in need. The central bank is supporting the lending capacity of the financial system through widened liquidity windows, additional asset discount facilities for banks and an expanded export-credit facility. The expansive monetary policy stance, implying negative real interest rates on the basis of market inflation expectations, has however weakened the exchange rate. The limit for government securities in the central bank's balance sheet was lifted from 5% to 10% in order to support fiscal policy. The Sovereign Wealth Fund was authorised to take large-scale equity shares in businesses, borrowing from domestic and international markets. Customs fees were increased on around 4800 product lines to support adversely affected domestic industrial sectors. Some of these measures were included in the 2% of GDP support package announced in March, but others remain off-budget and their fiscal cost is hard to quantify. The Ministry of Finance announced in May that the aggregate face value of tax deferrals, concessional credits, loan postponements and cash transfers will amount to 5.5% of GDP.

Recovery prospects are complicated by debt burdens

While activity will pick up as the public health situation improves, the recovery will be gradual given the income losses experienced by households and businesses and the resulting increase in their debt burdens. Firm balance sheets were indeed impaired and only partly rehabilitated after the 2018 shock. Export growth will be weak. The business situation is particularly difficult in the tourism sector due to the sharp fall of visitors. Aggregate capital formation may contract by up to 15% in 2020, holding back the long-term supply potential of the economy – an effect which would be deeper under the double-hit scenario. In this double-hit trajectory, investment would decline through the projection period and GDP might decline by 8% in 2020, before a rebound of around 2% in 2021. In the single-hit scenario, GDP is set to contract by around 5% in 2020 before rebounding by around 4% in 2021.

Turkey remains exposed to external shocks. Macroeconomic fundamentals are weak, due to high inflation, exchange rate volatility, volatile capital movements, and financial risks raised by extremely rapid credit growth in parts of the banking system. Geo-political uncertainties are also significant. The need to fight the COVID-19 crisis with strong measures did not facilitate the task of clarifying and consolidating the fiscal and monetary policy frameworks. Public financial institutions' ongoing expansion and public banks' domination of the credit market under concessional policies generate challenges for resource allocation efficiency and asset quality in the financial sector. They also increase government contingent liabilities. Against this background, Turkey's risk premia and external borrowing costs reached substantially higher levels than in peer countries. Total external funding needs are estimated to reach USD 170 billion, 23% of 2019 GDP, in the coming 12 months. Rolling over USD 55 billion of bank, non-financial business and government debt may be challenging under unstable international capital conditions and weak foreign currency reserves - even if the slow projected recovery and lower commodity prices may improve external balances in the short term.

Mainstream reforms and effective policy targeting will be key

Turkey needs to further support workers and businesses while activity remains low and disrupted. Efforts to postpone liquidity pressures should be completed with measures strengthening the solvency and financial sustainability of firms and households. Top priorities include consolidating the macroeconomic policy framework by maintaining a positive real policy interest rate, and implementing a credible medium-term economic programme encompassing all fiscal and quasi-fiscal activities. Supports should be focused on households and firms most in need. Structural reforms to permit the flexible functioning of the formal labour market, the level-playing field and resilient operation of the financial sector and predictable external trade conditions to help Turkish firms to fully participate in global value chains would foster the post-shock growth potential. On the health policy front, the lifting of containment measures should be accompanied with strict enforcement of distancing to avoid widespread lockdowns if the pandemic hits for a second time. The ongoing intense testing and tracking efforts should continue, and cases and fatalities should be monitored according to the best-practice international norms.

United Kingdom

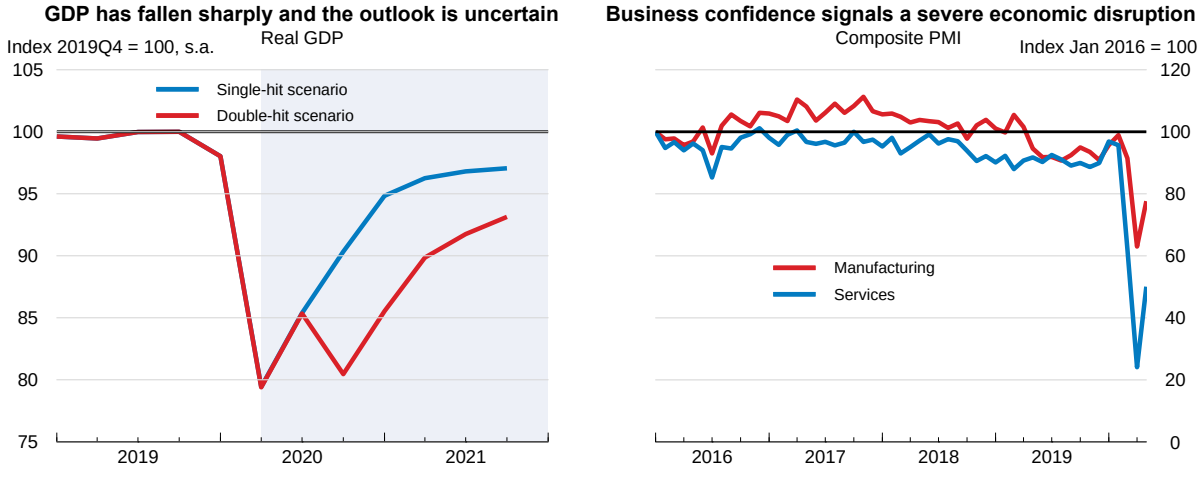
The COVID-19 crisis has led to a severe economic contraction. GDP is projected to fall by 14% in 2020 if there is a second virus outbreak later in the year (the double-hit scenario). An equally likely single-hit scenario would still see GDP fall sharply by 11.5%. In the double-hit scenario, the unemployment rate is set to more than double to 10% and remain elevated throughout 2021, despite widespread use of furloughing. Measures to limit the effects of the crisis in that scenario would push the fiscal deficit up to at least 14% of GDP in 2020.

The government swiftly put in place a comprehensive economic support package. Fiscal measures include income support for workers and self-employed, around GBP 330 billion in state loan guarantees to keep firms in business, tax deferrals, and an improved dispute resolution mechanism as an alternative to bankruptcy. Moving forward, these measures should be kept in place as long as they are needed and fiscal policy should remain supportive. Higher unemployment benefits should be extended beyond the fiscal year 2020-21 to help support demand during the recovery. Given the economic disruption caused by COVID-19, a temporary extension of existing trading relationships with the EU beyond the end of 2020 would help reduce uncertainty. Public investment supporting the recovery should underpin progress in digitalisation, sustainability and inclusiveness.

Containment measures have helped to slow the spread of COVID-19

The United Kingdom has been relatively hard hit by the COVID-19 crisis. Transmission within the United Kingdom was first documented on 28 February, and the virus has spread rapidly. Among the most affected were people in nursing homes. Since strict containment measures were implemented, the health situation remains under control and the number of daily confirmed deaths peaked in mid-April. The government announced a GBP 6 billion emergency response fund for the National Health Service. The health system scaled up rapidly, doubling the number of critical care beds within a month and rapidly expanding its testing and tracing capacity, which has helped keep the heath crisis under control.

United Kingdom 1



Source: OECD Economic Outlook 107 database; and Markit.

StatLink https://doi.org/10.1787/888934140012

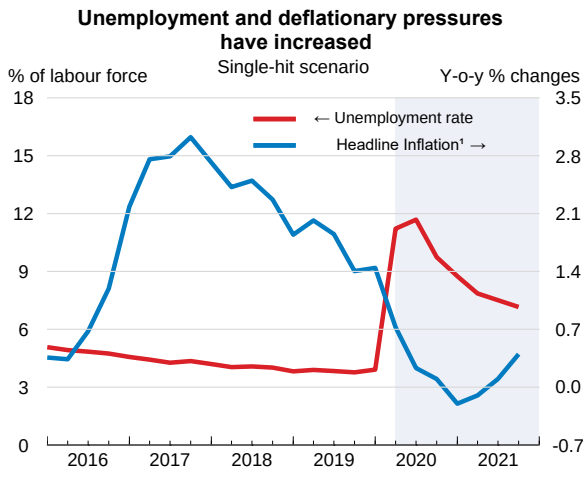
United Kingdom: Demand, output and prices (double-hit scenario)

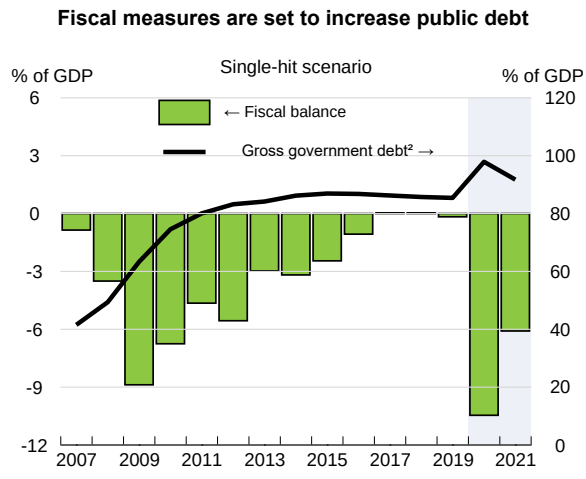
United Kingdom: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices GBP billion	Percentage changes, volume (2016 prices)				
GDP at market prices	1 995.5	1.9	1.3	1.4	-14.0	5.0
Private consumption	1 299.1	2.2	1.6	1.1	-18.5	5.2
Government consumption	381.5	0.3	0.4	3.5	11.2	4.0
Gross fixed capital formation	343.7	1.6	-0.2	0.6	-23.6	4.8
Final domestic demand	2 024.3	1.7	1.1	1.4	-13.6	4.8
Stockbuilding[1]	3.5	-0.6	0.3	0.2	-0.7	0.1
Total domestic demand	2 027.8	1.2	1.3	1.7	-14.3	4.9
Exports of goods and services	567.5	6.1	1.2	4.8	-16.9	-2.9
Imports of goods and services	599.8	3.5	2.0	4.6	-18.1	-2.8
Net exports[1]	- 32.3	0.7	-0.3	0.0	0.6	0.0
Memorandum items						
GDP deflator	_	1.9	2.1	1.9	1.5	0.5
Harmonised index of consumer prices	_	2.7	2.5	1.8	0.6	0.0
Harmonised index of core inflation[2]	_	2.3	2.1	1.7	0.8	0.3
Unemployment rate (% of labour force)	_	4.4	4.1	3.8	10.4	10.0
General government financial balance (% of GDP)	_	-2.4	-2.2	-2.1	-14.2	-12.1
General government gross debt (% of GDP)	_	119.9	116.6	116.1	142.2	148.6
General government debt, Maastricht definition (% of GDP)	_	86.2	85.7	85.4	100.7	98.3
Current account balance (% of GDP)	_	-3.5	-3.9	-3.8	-3.6	-3.7

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138891

United Kingdom 2





1. Harmonised consumer price index (HICP). Projection from 2020Q1.
2. Maastricht definition.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934140031

United Kingdom: Demand, output and prices (single-hit scenario)

United Kingdom: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices GBP billion	Percentage changes, volume (2016 prices)				
GDP at market prices	1 995.5	1.9	1.3	1.4	-11.5	9.0
Private consumption	1 299.1	2.2	1.6	1.1	-15.2	12.2
Government consumption	381.5	0.3	0.4	3.5	10.1	1.3
Gross fixed capital formation	343.7	1.6	-0.2	0.6	-20.3	7.2
Final domestic demand	2 024.3	1.7	1.1	1.4	-11.2	8.8
Stockbuilding[1]	3.5	-0.6	0.3	0.2	-0.7	0.1
Total domestic demand	2 027.8	1.2	1.3	1.7	-11.8	8.9
Exports of goods and services	567.5	6.1	1.2	4.8	-15.8	-1.1
Imports of goods and services	599.8	3.5	2.0	4.6	-17.0	-1.0
Net exports[1]	- 32.3	0.7	-0.3	0.0	0.6	0.0
Memorandum items						
GDP deflator	_	1.9	2.1	1.9	1.5	0.8
Harmonised index of consumer prices	_	2.7	2.5	1.8	0.7	0.6
Harmonised index of core inflation[2]	_	2.3	2.1	1.7	0.8	0.8
Unemployment rate (% of labour force)	_	4.4	4.1	3.8	9.1	7.8
General government financial balance (% of GDP)	_	-2.4	-2.2	-2.1	-12.4	-7.8
General government gross debt (% of GDP)	_	119.9	116.6	116.1	137.7	136.2
General government debt, Maastricht definition (% of GDP)	_	86.2	85.7	85.4	97.9	91.7
Current account balance (% of GDP)	_	-3.5	-3.9	-3.8	-3.5	-3.5

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138910

An economy-wide lockdown was introduced on 23 March, somewhat later than in neighbouring countries. Since then, all social events and gatherings have been banned, and all shops selling non-essential goods closed. The government announced a gradual easing of restrictions in England on 13 May, starting with the opening of manufacturing and construction sectors. If the health situation remains under control, a second phase would see the reopening of non-essential retail stores on 15 June, followed by the hospitality and entertainment sectors in July.

The economy is contracting sharply

As a service-based economy, the United Kingdom is heavily affected by the crisis. Trade, tourism, real estate and hospitality are all hard hit by confinement restrictions. Sectoral estimates indicate that stay-at-home measures could reduce output directly by one-third. Business and consumer confidence fell to all-time lows in April, before stabilising in the wake of the easing of confinement measures in May. 856 thousand new unemployment benefit claims (2.5% of the labour force) were registered in April, and 8.4 million workers (24.4% of the labour force) were furloughed by the end of May. Financial market uncertainty reached high levels. The FTSE 100 equity index has declined by 20% between mid-February and the end of May, and the volatility of government bonds and the sterling exchange rate have increased.

A prompt policy response supports the economy

The government reacted promptly to the crisis and put in place a substantial set of economic support measures, including 5% of GDP in discretionary spending, to support business and households. The Coronavirus Job Retention Scheme provides companies with 80% of furloughed workers' salaries. In addition, self-employed receive a taxable grant of up to 80% of their previous earnings over the past three years. The government also increased basic unemployment support, raising the levels of net income that a worker maintains when falling out of work from 56% to 63%. Nonetheless, unemployment benefits remain below levels in other advanced European economies. Furthermore, it set aside GBP 40 billion of tax deferrals. The GBP 330 billion Covid Corporate Financing Facility, run jointly with the Bank of England, and the Coronavirus Business Interruption Loan Scheme provide state loans and guarantees for businesses affected by the crisis. However, co-financing requirements of 20% limit the take-up among smaller businesses.

Monetary policy has appropriately further eased in the context of increased financial stress. The Bank of England cut interest rates from 0.75% to 0.10% and announced an increase of its bond-purchasing programme by GBP 200 billion (9% of GDP), to a total of GBP 645 billion. It temporarily extended the Ways and Means facility that allows the government to increase spending without the need to turn to the markets, and reduced the counter-cyclical capital buffer to preserve banks' capacity to lend to households and firms.

The recovery will be gradual

In the double-hit scenario, a second wave of the virus and new restrictions would put an abrupt halt to the pickup in economic growth in the fourth quarter this year, leading to a fall in GDP by 14% in 2020. Growth is expected to recover to 5% in 2021 as confinement measures ease. Employment will remain below pre-crisis levels and the unemployment rate will stay at around 10%. While the government's job retention scheme will preserve some jobs, it will probably not be able to fully offset lasting effects on employment. A higher unemployment rate will damp wage growth and subdue consumption, and limited unemployment benefits may encourage jobseekers to take on less qualified jobs. Investment growth is projected to remain subdued and the outlook for trade remains weak. If the United Kingdom moves to a basic free trade agreement with the European Union at the end of 2020, as assumed in the projections, trade costs will increase and exports will fall in 2021. In the equally likely single-hit scenario, where a seven-week lockdown is gradually eased from 13 May, GDP is projected to decline by 11.5% in 2020, with activity picking up from the third quarter of 2020. Weak business and consumer confidence, the rise in unemployment, and the uncertainty about ongoing restrictions slow the recovery. GDP levels will remain more than 5% below the level projected before the crisis by the end of 2021 in the single-hit scenario. Economic measures to tackle the crisis and the sharp fall in revenues will lead to a substantial fiscal deficit.

In addition to a more extended lockdown period, downside risks come from the risk of longer-term scarring of the economy due to higher unemployment and business closures. There is considerable uncertainty about how prolonged restrictions on activity or lower than expected demand would affect financial stability. A failure to provide credit to capital-weak small enterprises would result in higher business failures and unemployment, while a larger-than-expected fall in house prices might weigh on banks' capital buffers and reduce their lending capacity at a critical time. Moreover, risks around the future relationship with the European Union compound COVID-19-related uncertainty, including whether a free trade agreement can be negotiated before the end of 2020. The failure to conclude a trade deal with the European Union by the end of 2020 or put in place alternative arrangements would have a strongly negative effect on trade and jobs.

Further policy action will be needed to support the recovery

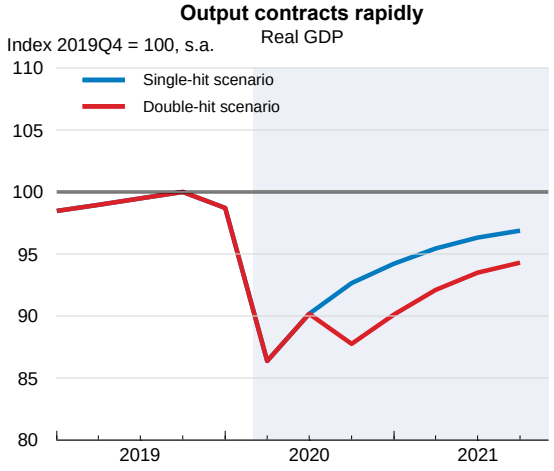
Economic measures should be kept in place as long as needed and fiscal policy should remain supportive. As stay-at-home measures are lifted, policy should gradually shift from temporary measures to preserve existing businesses and jobs towards general demand support. Extending the higher unemployment support replacement rate and the suspension of the Universal Credit minimum income floor beyond the fiscal year 2020-21 could support demand and inclusiveness during the recovery. Furthermore, the government should stand ready to extend the furloughing scheme in case of a renewed lockdown. Fast resolution of insolvent firms will be key to a speedy recovery. Streamlined debt resolution schemes may be helpful. To avoid otherwise solvent firms going bankrupt, the government could consider improving access of capital-weak SMEs to existing loan schemes by temporarily easing co-financing requirements, while keeping strict monitoring in place. The government should also consider temporarily postponing future increases in the National Living Wage to support labour demand and facilitate the reallocation of labour towards sectors that may face labour shortages, in line with current institutional arrangements and advice from the Low Pay Commission. Further ahead, the COVID-19 crisis will lead to permanent structural shifts in the economy and policy should support a more sustainable and inclusive re-adjustment. This could entail adjusting plans for public investment in line with digital, sustainable and inclusive growth targets, for example by increasing carbon taxation, reducing the tax wedge between self-employed and regular employees, and shifting funds within the National Productivity Investment Funds towards digital infrastructure. The United Kingdom should make a temporary arrangement to stay in the EU Single Market beyond 31 December 2020 given the pressures firms already face from COVID-19.

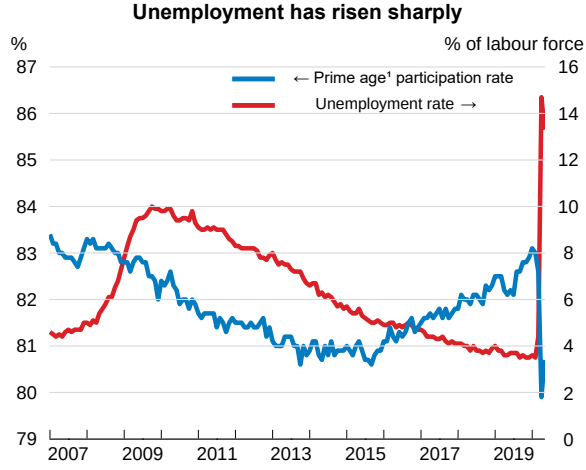
United States

The COVID-19 outbreak has brought the longest economic expansion on record to a juddering halt. GDP contracted by 5% in the first quarter at an annualised rate, and the unemployment rate has risen precipitously. If there is another virus outbreak later in the year, GDP is expected to fall by over 8% in 2020 (the double-hit scenario). If, on the other hand, the virus outbreak subsides by the summer and further lockdowns are avoided (the single-hit scenario), the impact on annual growth is estimated to be a percentage point less. The unemployment rate will remain elevated after states lift their shelter-in-place orders, reflecting ongoing difficulties in sectors such as hospitality and transportation, and the sheer scale of job losses. With unemployment remaining high, inflation is projected to stay low, although less so if subsequent lockdowns are avoided.

Massive monetary and fiscal responses have shielded households and businesses, but more will be needed to reduce lingering effects such as large numbers of bankruptcies and labour-market exits. Complementary payments to augment unemployment insurance should continue, while the tax burden of households and businesses should be lowered when they are directly affected by the lockdown. Additional support will be needed to help workers return to work. Some states and local governments will face financial difficulties as their main revenue sources have dried up, and their debt burden will need to be addressed. Importantly, well-designed public financial support for developing a vaccine and treatment of COVID-19 could help prevent a recurrence of a pandemic again leading to deaths and debilitating the economy.

United States 1





1. Defined as the 25-54 year olds.
Source: OECD Economic Outlook 107 database; and US Bureau of Labor Statistics.

StatLink https://doi.org/10.1787/888934141000

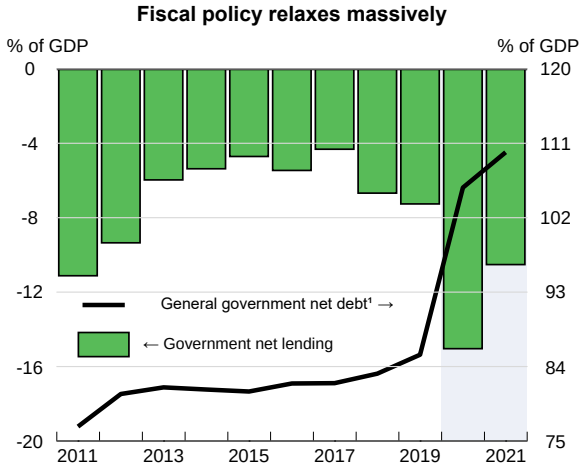
United States: Demand, output and prices (double-hit scenario)

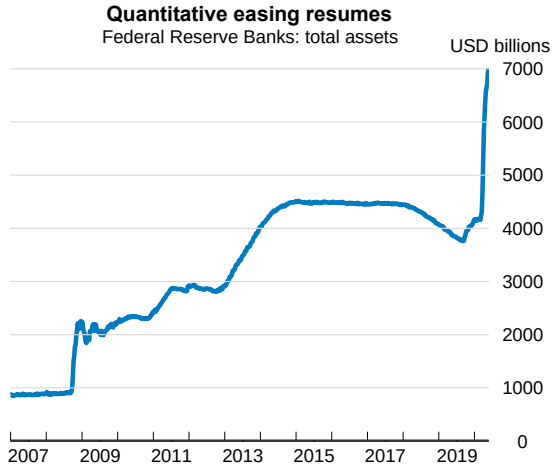
United States: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices USD billion	Percentage changes, volume (2012 prices)				
GDP at market prices	18 715.0	2.4	2.9	2.3	-8.5	1.9
Private consumption	12 748.5	2.6	3.0	2.6	-9.4	2.6
Government consumption	2 671.4	0.6	1.7	1.8	2.5	2.0
Gross fixed capital formation	3 786.9	3.7	4.1	1.8	-9.5	0.8
Final domestic demand	19 206.8	2.5	3.0	2.3	-7.8	2.1
Stockbuilding[1]	27.1	0.0	0.1	0.1	-0.8	0.0
Total domestic demand	19 233.8	2.6	3.1	2.4	-8.5	2.1
Exports of goods and services	2 220.6	3.5	3.0	0.0	-11.1	-0.6
Imports of goods and services	2 739.4	4.7	4.4	1.0	-11.0	0.7
Net exports[1]	- 518.8	-0.3	-0.3	-0.1	0.3	-0.2
Memorandum items						
GDP deflator	_	1.9	2.4	1.7	1.7	1.6
Personal consumption expenditures deflator	_	1.8	2.1	1.4	1.2	1.1
Core personal consumption expenditures deflator[2]	_	1.6	2.0	1.6	1.4	1.0
Unemployment rate (% of labour force)	_	4.4	3.9	3.7	12.9	11.5
General government financial balance (% of GDP)	_	-4.3	-6.7	-7.3	-16.8	-11.8
General government gross debt (% of GDP)	_	105.7	106.7	108.5	131.8	139.9
Current account balance (% of GDP)	_	-2.3	-2.4	-2.3	-2.1	-2.2

1. Contributions to changes in real GDP, actual amount in the first column.
2. Deflator for private consumption excluding food and energy.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138929

United States 2





1. General government shows the consolidated (i.e. with intra-government amounts netted out) accounts for all levels of government (central plus State/local) based on OECD national accounts. This measure differs from the federal debt held by the public, which was 79.2% of GDP for the 2019 fiscal year.
Source: OECD Economic Outlook 107 database; and Refinitiv.

StatLink https://doi.org/10.1787/888934141019

United States: Demand, output and prices (single-hit scenario)

United States: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices USD billion	Percentage changes, volume (2012 prices)				
GDP at market prices	18 715.0	2.4	2.9	2.3	-7.3	4.1
Private consumption	12 748.5	2.6	3.0	2.6	-7.8	6.2
Government consumption	2 671.4	0.6	1.7	1.8	2.3	1.3
Gross fixed capital formation	3 786.9	3.7	4.1	1.8	-8.2	3.2
Final domestic demand	19 206.8	2.5	3.0	2.3	-6.5	4.9
Stockbuilding[1]	27.1	0.0	0.1	0.1	-0.8	0.0
Total domestic demand	19 233.8	2.6	3.1	2.4	-7.2	4.9
Exports of goods and services	2 220.6	3.5	3.0	0.0	-10.2	3.6
Imports of goods and services	2 739.4	4.7	4.4	1.0	-10.0	6.7
Net exports[1]	- 518.8	-0.3	-0.3	-0.1	0.3	-0.5
Memorandum items						
GDP deflator	_	1.9	2.4	1.7	1.7	2.1
Personal consumption expenditures deflator	_	1.8	2.1	1.4	1.2	1.5
Core personal consumption expenditures deflator[2]	_	1.6	2.0	1.6	1.4	1.2
Unemployment rate (% of labour force)	_	4.4	3.9	3.7	11.3	8.5
General government financial balance (% of GDP)	_	-4.3	-6.7	-7.3	-15.0	-10.5
General government gross debt (% of GDP)	_	105.7	106.7	108.5	128.8	133.0
Current account balance (% of GDP)	_	-2.3	-2.4	-2.3	-2.1	-2.5

1. Contributions to changes in real GDP, actual amount in the first column.
2. Deflator for private consumption excluding food and energy.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138948

Several containment measures were implemented

Since the first case was recorded in late January, the spread of the virus has been rapid and now over one million Americans have been diagnosed as infected with COVID-19, with clusters in several metropolitan areas. Confinement measures decided in most states have helped to flatten the curve of new cases, but deaths are still rising fast, although the pace appears to be slowing, and there are large uncertainties about the future impact of the pandemic. The impact of COVID-19 on hospitalisation and mortality appears to disproportionally affect the elderly, black and African Americans, and men.

As COVID-19 started to spread, states implemented distancing strategies to slow the contagion. Most states closed schools and non-essential businesses, restricted public gatherings and ultimately issued shelter-in-place orders, with the first introduced in California in late March. Some states began to relax containment measures in late April, adopting a phased reopening of the economy. Typically, schools and bars, restaurants and places of entertainment remain closed, but other sectors can operate with some restrictions requiring distancing in the workplace and staggered shift times so workers do not need to travel during peak times or be at work during the same periods as others. The ambition is to replace non-pharmaceutical interventions, such as lockdowns, with increased testing and contact tracing while avoiding overburdening the health sector. At the federal level, support for testing provides a complement for state strategies to reopen their economies.

Economic activity has contracted sharply

Containment measures, business closures, and households staying at home have led to a severe contraction in economic activity. Activity in the entertainment sector and passenger transport has been decimated. This has provoked an unprecedented sharp increase in unemployment. Over 20 million workers lost their jobs in the space of a month, far quicker than during the 2008 financial crisis or even the Great Depression, and the unemployment rate surged to almost 15% in April before moderating slightly in May. To compound the COVID-19 shock, the oil price collapsed as supply overwhelmed storage capacity. By early May, drilling activity was down by 50% on the beginning of the year. Financial markets have shown signs of stress with yields surging in some markets and measures of asset prices falling by around one-fifth.

The policy responses have been large and rapid

Monetary and financial market policy reacted forcefully and quickly to the emerging crisis. The Federal Reserve dropped interest rates to 0-0.25% and announced the resumption of (unlimited) large-scale asset purchases, swelling the size of the balance sheet. Statements also made clear that interest rates would remain low, giving markets forward guidance. In response to concerns about credit markets freezing, a number of new credit facilities were introduced. Liquidity facilities have been created to underpin credit for securities firms, money market mutual funds, major companies and state and local governments. An additional facility to target lending to “main street” businesses is an innovation, expanding support to sectors traditionally far beyond the purview of monetary authorities. In addition, prudential regulators have temporarily relaxed some requirements for the financial sector, to avoid credit drying up.

Fiscal policy also reacted forcefully to the COVID-19 virus. Initial policy moves were relatively small and mainly targeted the medical response, but as the scale of the impact on the economy became clearer Congress passed a suite of budgetary acts to shield families and businesses. Cumulatively these acts will see budget deficits balloon in the short term, raising debt levels by over 20% of GDP. One-off payments to all families and higher unemployment insurance payments helped to shield households from the shutdown. Congress has also authorised direct payments to distressed industries, such as airlines. Credits are available for other companies. For small businesses, these loans become grants if mainly used to support payrolls, as policymakers recognised the importance of keeping workers attached to businesses. In addition, some funds have been directed to support state governments that have come under budgetary strain due to the fiscal cost of dealing with the COVID-19 outbreak at a time when their revenue sources are drying up.

The recovery will be protracted

The economy is set to climb out of the COVID-19 hole as states and sectors sequentially reopen. The economy is assumed to have been largely constrained by shelter-in-place measures through most of April and May, and assumed to be subject to smaller shutdowns again in October and November in the double-hit scenario that are avoided in the single-hit scenario. After these shutdowns the economy is reopened with restrictions lingering in sectors where distancing remains a concern even when a second shutdown is avoided. An unusually large share of the unemployed are on temporary furlough, which suggests that they will regain employment relatively quickly, providing robust rebounds in the short term as restrictions are relaxed. However, employment dropped dramatically and many workers have not retained attachments to employers. Reflecting similar difficulties in making employer-employee matches and workers dropping out of the labour force and only slowly re-entering as in the aftermath of the 2008 financial crisis, the unemployment rate is assumed to decline relatively gradually. Weakened consumer demand in conditions of elevated unemployment and heightened uncertainty will depress business investment. This is likely to

hold productivity growth back. With high unemployment rates, inflation is set to be quiescent throughout the projections.

Some industries, such as passenger transport and hospitality, will likely bear enduring scars from the COVID-19 crisis. Not only are they likely to be reopened after other businesses, but will also face reduced demand until a vaccine or an effective treatment for COVID-19 is available. Furthermore, businesses in exposed sectors had built up sizeable debts, with non-financial corporate debt around 140% of GDP. As a result, some businesses will face liquidity and solvency concerns, which could precipitate large-scale firm liquidation and dent prospects for a rapid recovery. More positively, the economy could rebound more strongly. In particular, effective contact tracing, treatment or even development of a vaccine would allay worries about the risks of the virus. As a result, the sectors more affected by distancing protocols would be able to reopen fully with a positive impact on employment and household incomes, and thereby consumption.

Continued policy support will be needed

Prospects for businesses, particularly small firms, are very uncertain. As the immediate support measures are withdrawn, some businesses will face liquidity concerns, which could easily transform into questions about solvency. Dangers of un-coordinated action by creditors could lead to fire sales of liquidated assets, provoking a further negative macroeconomic shock. Regulatory forbearance and continued liquidity support while the economy recovers, at least initially, would avoid a sharp shock in vulnerable sectors. While a large share of the unemployed are on furlough and should face no difficulties on returning to their employers, the sheer scale of unemployment suggests that many will face difficulties in re-entering employment quickly. As businesses reopen this concern will be alleviated.for many, but additional action would help prevent other workers dropping out of the labour force and in some cases entering disability rolls. The current protests across the country also highlight the importance of ensuring a broad based recovery that does not leave behind disadvantaged groups who often only benefit when a recovery is well under way. In this context, federal, state and local governments should support job placement and retraining services. Finally, many local governments will face difficulties due to revenues collapsing and squeezes from balanced budget rules. Additional support from the federal government would help prevent an unwanted fiscal contraction while the economic recovery is still in its early stages. Finally, federal government support for the development of vaccines and treatments would potentially allow the economy to recover robustly.

OECD Economic Outlook

The *OECD Economic Outlook* is the OECD's twice-yearly analysis of the major economic trends and prospects for the next two years. The Outlook puts forward a consistent set of projections for output, employment, prices, fiscal and current account balances.

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